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ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,
ALTA.

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Monday, February 3, 1958, at 10.00 A.M.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. - Chairman

Mr. J.L. Levesque, - Member

Mr. G.E. Britnell, - Member

Mr. G.G. Cushing, - Member

Dr. R.D. Howland, - Member

Mr. L.J. Ladner, Q.C. - Member

Dr. R.M. Hardy, - Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

MARKET IN EQUILITY



APPEARANCES:

Representing Trans-Canada Pipe Lines Limited:

Mr. N.J. McNeill - Counsel

Mr. F.P. Layton - Associate Counsel

Mr. Charles S. Coates - President

Mr. William B. Tippy - President of Commonwealth Services Inc.

Mr. H. Dix Fowler - Vice-President

Mr. Paul F. Clarke - General Partner of
Lehman Brothers,
Investment Bankers,
New York, N.Y.

Mr. R.C. Berry - Vice-President and Treasurer.

Mr. Ralph S. Orme - Natural Gas Consultant, Commonwealth Services Inc.

Mr. V.L. Horte - Chief Gas Supply Engineer.

Mr. Gladstone Stewart, Jr. - Vice-President,
De Golyer and
MacNaughton, Dallas,
Texas.

Mr. A.D. Nesbitt - President, Nesbitt,
Thomson & Company,
Investment Bankers,
Montreal, P.Q.

Mr. N.E. Tanner - Chairman of the Board

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EXHIBITS	,	Page
C-19-1	Statement of Shareholders, Directors and Officers of Westcoast Company Limited.	1845
C-19-2	Submission of Trans-Canada Pipe Lines Limited	1860
C-19-3	Booklet entitled "A discussion of Factors Relating to Trans-mission and Marketing of Natural Gas".	1860
C-19-4	Book entitled Present and Potential Canadian and Export Natural Gas Markets	1860
C-19-5	Table headed "Unit Cost of Service"	1895
C-19-6	Contracts other than Gas Sales Contracts	1932





Wednesday, February 19, 1958.

--- The Commission resumed at 9.45 a.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

BY MR. PATTILLO (Cont'd):

Q. Mr. McDonald, we have it clear on the record that the first contract with Pacific Northwest was in December of 1954?

MR. McDONALD: That is true.

Q. When was the first contract with B. C. Electric?

MR. McDONALD: Just a moment, sir, and I will get the papers. February 18th, 1955.

Q. When was the first contract with Inland?

MR. McDONALD: The date is February 2nd, 1955.

Q. When did you make your contracts with the producers in the field?

MR. McDONALD: The contracts are dated February 1st, 1955. These are dated copies; they may have been signed a week or so later.

Q. So that in the month of February, 1955, you had all your original sales contracts

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completed and your purchase contracts completed, and you were then in a position to apply for new export permits?

MR. McDONALD: Yes; the purchase contract I refer to as the main one with Pacific, and during the next month or six weeks we did have additional contracts for that Fina group and others. We went to the Conservation Board in Alberta some time in March.

Q. And the second group of 5-cent shares and the 125,000 shares were issued in April of 1955?

MR. McDONALD: I think that is right.

- Q. Would you just check that?
- A. Yes.
- Q. That is what I think you told me the other day.

MR. McDONALD: Yes, that was in my testimony yesterday, Mr. Pattillo.

Q. So, this statement that appears in the exhibit that you filed yesterday, Exhibit C-18-1, at the top of page 2, "The fact is none of the 625,000 shares issued as above mentioned acquired a real value until May 1, 1956, when the financing of the project was consummated. Up to that date the company had no assured future and any investment in time and money by any of the shareholders was made entirely at the risk of completing financing."

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That is not entirely accurate, is it, in the light of the fact that at the time those 125,000 shares were issued the only thing left to be done was to get a renewed export permit from the Dominion of Canada to take the place of the one the company previously had and to complete the financing?

MR. McDONALD: No, we had to go to the Federal Power Commission in the United States who had to adjudicate on the import of the gas.

Q. But that was in effect -- as far as the Federal Power Commission application is concerned, all parties interested would be supporting the application?

MR. McDONALD: Yes, I think that we had taken into account as much as possible all our opposition, but we had no assurance whatsoever. We did not run into difficulties.

Q. Still looking at your Exhibit C-18-1, you say, "In the result the actual per share cost to Mr. McMahon of his total holdings of 300,000 shares as shown in the prospectuses of September 11, 1957, was 74,188 shares at 5 cents . . ." -- and then you go on; but, just deal with that: Mr. McMahon did receive how many shares for 5 cents?

MR. McDONALD: Personally, 74,188.

Q. Yes, but the allotments to him exceeded that amount?

MR. McDONALD: Yes.

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Q. Well, let us have the allotment first, the aggregate allotment?

MR. McDONALD: The total allotment of the shares issued at the price of 5 cents was 154,687.

Q. Yes.

MR. McDONALD: To Mr. McMahon.

Q. I think you told us in your testimony that you received 10,000 shares at 5 cents, and I assume that those 10,000 shares came out of that allotment of one hundred and some thousand?

MR. McDONALD: Yes. I can give you the breakdown, Mr. Pattillo.

Q. Please.

MR. McDONALD: Mr. George L. McMahon received 54,400; Mr. Whittall 13,600, and myself 12,500, and my 10,000 statement the other day was with reference to the 500,000 shares issued -- not the additional 125,000. My information comes from prospectuses, which are filed; these figures all appear in the prospectuses.

Q. Perhaps you can put it on the record because it does not appear in the prospectuses that I have been directing my attention to it in that manner. Would you just state for the record what prospectus that can be found in?

MR. McDONALD: It can be found in a prospectus of April 23rd, 1956.

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Q. When did the shares of Westcoast first begin to be traded in over the market or over the curb?

MR. McDONALD: Well, it would be May 1st, 1956; that would be the first date on which they would be traded.

Q. You told us they were offered to the public for \$5: what was the prices, starting then, they were traded in over the curb?

MR. McDONALD: I have no knowledge of that.

Q. You have no knowledge?

MR. McDONALD: Well, I have no specific knowledge of what the trade was. You are referring to prior to May?

Q. Yes.

MR. McDONALD: I have no record.

Q. Have you any information as to the prices of the shares traded in from May 1st, 1956, up to the present time?

MR. McDONALD: Yes, I have that information. I have it by average high and low per month.

Q. That would be fine. Would you read that into the record?

MR. McDONALD: May 1956, \$9.55; June, \$10.44; July, \$12.19; August, \$12.19 --- oh, just a moment. I must correct myself; I was reading

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Q. All right.

MR. McDONALD: In May the average high and low over the counter was \$16.06 for Westcoast shares -- that is, May 1956.

MR. COMMISSIONER LEVESQUE: Is that high or low?

MR. McDONALD: That is the average.

T/p

Q. You have not got the high and low, you just have the average?

MR. McDONALD: The high in May, 17 1/8; the low was 15. June, 24 1/2 high, low 15 1/2. July, 27 1/4 high, and a low of 23 1/2. August, high 28 1/2, low 24 1/4. September, 27 7/8 and a low of 26. October, a high of 28 and a low of 25 1/4. November, 29 1/4 and a low of 25 1/2. December, 29 3/8, and a low of 26 1/4. January, 1957, a high of 38 1/4, and a low of 28 1/2. February, 37 1/2, and a low of 35 1/4. March, 41 1/2 high, and a low of 36. April, 46 1/2 high, and a low of 40 3/4. May, 52 high, low 41 3/4. June, 57 1/2, and a low of 48. July, 49 3/4 high, and a low of 43. That is all I happen to have.

Q. Thank you very much. Now, on page 3 of the exhibit you filed yesterday, C-18-1, you state here:

"One method to offset this possibility of
"losing Canadian control of the company
"was to issue additional shares to the
"then shareholders; further to insure
"control to grant options covering 400,000
"shares."

Now, the options you refer to are the 200,000 to Mr. McMahon and the 200,000 to Eastman Dillon, Union Securities & Co.

MR. McDONALD: That is right.



Q. Of the 200,000 that were optioned to Eastman Dillon they, in fact, took down how many?

MR. McDONALD: They have taken down about -- it is about 179,000 shares out of the 200,000.

Q. And of that 179,000 they sold in the open market all but 18,000?

MR. McDONALD: I have no idea what they did with them.

Q. I am just looking at your prospectus of September 11, 1957 at page 46.

MR. McDONALD: Yes, whatever is stated here in the prospectus is accurate.

Q. And what it says there:

"The company is advised options in res"pect of 18,400 shares were exercised by
"such persons and the stock is still
"held by them; options in respect of
"161,090 shares were sold by them for

"an aggregate consideration of \$4 million.." and so on.

MR. McDONALD: Yes, that is right.

Q. So that, so far as 161,090 shares were concerned, they were not held for the purpose of exercising Canadian control of the company?

MR. McDONALD: They are deposited in the Voting Trust and are part of the control of the company.

e set.



Q. The 161,090 shares, which were sold by Eastman Dillon, you say are deposited in the Voting trust?

MR. McDONALD: The shares are deposited in the voting trust; the man who paid the \$4,900,000, or the people, has a certificate, a voting trust certificate, which states he has no voting rights of any nature or any kind.

Q. He merely has the beneficial interest in the shares, the certificate?

MR. McDONALD: The actual shares are in the name of the Montreal Trust Company.

Q. When was the voting trust created?

MR. McDONALD: It was actually executed

May 9, 1955. I might point out, Mr. Pattillo, what

the history of the transaction is.

Q. Yes?

MR. McDONALD: The problem which faces the directors in regard to control, was that when they calculated the possibility of the issuing of shares that would be issued to the public, the forecast -- I do not know the figures but, as I recollect the thinking of forecast of what the total amount of shares may be and the total number of shares that were required, and we wish to have the shares, actually to our adherents, as it were, a sufficient number to offset the Pacific Northwest. We knew that Pacific Petroleums would, actually buy at \$5

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very close to the number of shares that Pacific Northwest had. We knew that we could rely on a fair proportion of the other shareholders to purchase the shares, but we were not certain that a Voting trust, which I had suggested to the Board to offset this --- with the exception of the changes in the United States or Canada -- may not be a feasible method of handling control. So, if we actually came to a vote, if we ever got into a position where it was necessary for somebody to purchase shares in order to offset the group of foreign investors who might get control of our company, it was my recommendation to the Board that we issue and have outstanding sufficient optioned shares at a price higher than the public paid for it and the figure I suggested was 20 per cent, so that no matter, within a 5-year period, these people would come in and that our group could buy through the Treasury to offset gaining control of the company. I thought the rate at 20 per cent above the price was a reasonable rate because that amount, \$2,400,000 would have to be laid on the line, and that is a lot of money for anybody to put up. There were no restrictions placed on the shares, Mr. Pattillo, and we then discovered our voting trust arrangement was acceptable to the investing public. I think you can eventually have suitable arrangements, where our exchanges are concerned, or sufficient exchanges,

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to warrant the project as it stands, and the net result, anyway, was that we have control. There were no restrictions placed on Eastman Dillon or Mr. McMahon with reference to whether and when they exercised the option.

Q. Mr. McDonald, I am not sure I follow this thing. In May, May 9, when you set up this voting trust, as I understand, the 400,000 shares you proposed to be issued by way of option went immediately into the voting trust?

MR. McDONALD: When they were sold they would then become part of the Voting Trust if they were exercised.

- Q. If the options were exercised the shares would become part of the voting trust?

 MR. McDONALD: That is right.
- Q. And the holders of a voting trust certificate could, if they saw fit to do so, sell them?

MR. McDONALD: No, shares -- oh, yes, they are traded just like shares; they are share certificates.

Q. And that is really what Eastman
Dillon has done? In relation to selling 161,090
shares, they have sold voting trust certificates
in relation to that many shares?

MR. McDONALD: That is right. There is another thought there, Mr. Pattillo, which is all



fitted together: when we were originally issuing the 500,000 shares, the cost of the project we then contemplated to be something in the neighbourhood of \$108 million. When we got our preliminary figures of our costs, in January, 1955 from Bechtel Corporation, their then estimate was \$142 million. In other words, there had been, roughly, a 35 per cent or 40 per cent increase in the overall project and it was not out of line with similar risk ventures of this kind, which I referred to yesterday, by making available to the original shareholders who accepted all these risks a proportion of the shares to be finally outstanding equivalent, approximately, to 12 per cent to 15 per cent.

Q. Well, Mr. McDonald, do you agree with me, once you have produced contracts from customers like Pacific Northwest and you have your supply contracts and you have your estimates from engineers in standing of Bechtel of what the whole cost of the project will be, if it is economically feasible, that there is not much difficulty in raising capital, debt capital to permit the financing. In this case it was 88 per cent that was able to be raised in that manner.

MR. McDONALD: Yes, eventually it arrived at that figure.

Q. Apparently, the investment corporation, such as Metropolitan Life, did not consider,



at that stage, that there is a great risk in the venture.

MR. McDONALD: Mr. Pattillo, what I think you are getting at -- I think your standard of value -- I could have taken my certificate to the bank and obtained no credit on the shares. I think that establishes the value of these shares. They were completely worthless until we had the total amount of money required to finance the initial project. That is my view. I do not question your comments on it but that, I think, is the practical estimate of this question.

Q. Now, on page 6 of your exhibit C-18-1:

"The issue of the 625,000 and the existence

"of the options outstanding at the time

"of initial financing have not added, in

"any way, to the cost of service rendered

"by Westcoast to its customers in Canada

"or in the United States or, in any way,

"lowered its ability to pay the maximum

"price for gas to the producers or, ad
"versely, affect the financing of the

"company."

You told us yesterday that the debt financing for the amount required amounts to, approximately, 88 per cent of the capital structure of the company.

MR. McDONALD: That is right, Mr.

Pattillo.





Q. And in determining your cost of servicing, the interest on that 99 per cent is an item that is included, is it not?

MR. McDONALD: Oh, yes.

Q. And if it was reduced to 75 per cent rather than 88 per cent, the cost of servicing would be greatly reduced, would it not?

MR. McDONALD: No. Let me point this out to you, Mr. Pattillo. What the shareholders are interested in is the money that is available from the project, that is the dividends and for re-investment.

Q. I agree that is what the shareholders are interested in. I am just asking, am I not correct in thinking, if your debt financing is 75 per cent of the total project rather than 88 per cent the cost of servicing the project is greatly reduced?

MR. McDONALD: No. The cost, the interest cost is reduced, but the income tax cost -- to say that the cost of service is decreased--if you desire to measure your benefit on the amount of money available for dividends and for re-investment on behalf of the shareholders.

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Q. So that is to say, really, the only effect of having a higher interest charge is that the government gets less in the way of income tax because of the ability to take off the interest before determining the taxable income?

MR. McDONALD: I believe the calculation goes -- it is judged by the financial people who advise the directors of Westcoast, and I concluded myself after examination, that the debt was a proper method of financing the company. Now, what the eventual effect will be over the years on our total tax I wouldn't comment now.

Q. You do agree with me, though, that in determining the taxable income the interest payable on the bonds is a deductible figure?

MR. McDONALD: Oh, most certainly.

Q. But dividends that were paid to the shareholders are not. Do you agree with that?

MR. McDONALD: No, dividends could only be paid after the taxes, out of which the gross

Q. You also agree that the higher your debt charge, the higher percentage of your debt charge, the less your taxable income will be?

MR. McDONALD: That is true, yes. There are corporations, Mr. Pattillo, to my knowledge that are financing at a 99 per cent debt in recent years since there has been a high income tax rate.

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Q. I suppose that comes back, then, that the poor individual will pay more income tax in order to keep the economy going?

MR. McDONALD: No, it is back to good sound business, for the benefit of the country as a whole.

Q. Now, I just have a couple of questions that I want to ask you regarding this Peace River Natural Gas Company.

When was that company incorporated, can you tell me?

MR. McDONALD: I am trying to think. I think it was incorporated before World War II in the late 1930's.

Q. Am I correct in thinking that in 1949, at that time, the authorized capital of the company was 250,000 shares, no par value, and that of those 53,132 had been issued?

MR. McDONALD: I have no knowledge of that. I didn't act for the company. I would just say this, that that is the familiar pattern for every gold mining company, every oil company, that has been organized in Canada in the 28 years that I have been a lawyer. When I say "every" I mean the general average, but that is the general method of organizing these companies.

Q. Now, at the time in 1957 when the liquidation of the Peace River Natural Gas Company





was carried out and its assets transferred, as you detailed the other day, were the original group that had formed the Peace River Natural Gas Company Limited still shareholders in Peace River Natural Gas?

MR. McDONALD: I think a great many were.

Q. Was the original group, to your know-ledge, Stanley A. Slipper, Mr. Norman R. Whittall, Mr. Frank M. McMahon and Colonel Victor Spencer, Mr. George A. Martin, Mr. Frank M. Ross and Senator J.A.W. de B. Farris?

MR. McDONALD: I have no doubt they were. They have contributed a great deal in organizations of this kind. They have been very active in all the natural resources of Western Canada, including this Peace River deal.

Q. Do you know whether or not any of those persons I have mentioned still held shares at the time of this transaction in 1957 in which the assets eventually got over or under the control of Westcoast Transmission?

MR. McDONALD: Pardon me a moment. I have a list here. The only information I have is that Mr. McMahon was a director, both Mr. Frank McMahon and Mr. George McMahon and Mr. Whittall, Mr. Ross held shares and Senator Farris was a director, so, of course, he was a shareholder.

Q. You have no record as to what the





original shares of this company were issued for?

MR. McDONALD: No -- well, the company
was incorporated to take over the Pouce Coupe,
the acreage in Pouce Coupe field of Alberta. So
I presume that shares were issued for the property,
whatever those leases were, but I have no personal
knowledge of them.

Q. Did Sunray Oil or Mr. Wright or any officer of Sunray Oil have any interest in Peace River Natural Gas?

MR. McDONALD: They might have over the years but I have no knowledge as to that.

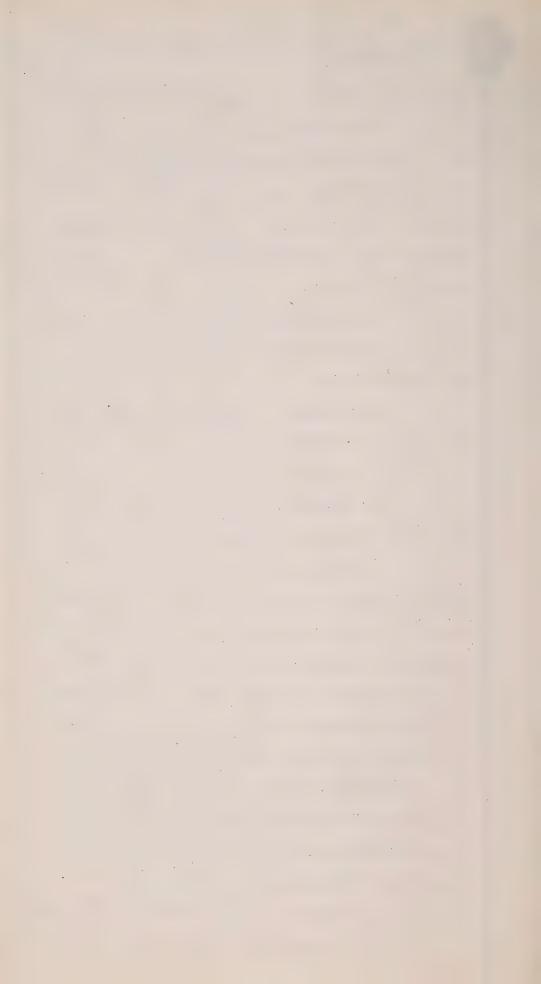
Q. Right.

MR. McDONALD: I have no distinct recollection of the number of shares.

Q. Now, Mr. McDonald, you were good enough to furnish us with a statement of the share-holdings of the directors and officers of Westcoast Transmission Company Limited as of June 30 last year, and Pacific Petroleums Limited, Inland Natural Gas Company Limited, Peace River Natural Gas Company Limited and Westcoast Transmission Company Limited, and I think you have told us about Mr. McMahon's shareholdings in Westcoast Transmission and Peace River Natural Gas. He is a substantial holder in Inland also, 70,000 shares?

MR. McDONALD: That is right, Mr. Pattillo.

Q. And have you any knowledge of Inland





as to whether he paid the market price for those sales or whether he paid something other?

MR. McDONALD: No, I did not act for Mr. McMahon with reference to Inland Natural Gas; it was incorporated in Vancouver.

Q. Right.

Who are the solicitors for Inland Natural Gas -- Farris & Company?

MR. McDONALD: Yes.

Q. Then you have told us how Mr. George
L. McMahon got some of the shares in Westcoast
Transmission. I see that he also held shares in
each of the four companies and so did Mr. Whittall?

MR. McDONALD: Yes.

MR. PATTILLO: I propose filing this schedule ---

MR. McDONALD: Yes.

MR. PATTILLO: So I am not going to read all of these things I want to refer to.

Q. Now, you show Mr. Gilmour as holding shares in Westcoast Transmission Company Limited, 76,200. Are those shares represented by voting trust certificates or are they, in fact, shares outside the voting trust?

MR. McDONALD: No, all Mr. Gilmour's holdings are under the voting trust agreement.

What I have shown here I might explain for the record, is that it is necessary for the





voting trust trustees of Westcoast to file with the Security Exchange Commission of the United States a statement of their holdings as of June 30, 1957, and this is the information which is furnished to the companies, to me as representing the voting trustees, to file with the Security Exchange Commission, and it comes from the records of the company.

Q. Those shares of Mr. Gilmour would be made up of those 5ϕ shares, or were they acquired under the share option ---

MR. McDONALD: They are made up, yes; how he acquired them I wouldn't say.

Q. Yes?

MR. McDONALD: The shares he acquired under the option are on the prospectus and are deposited in his family trust.

Q. Now, the shares that Mr. Ross owns in Westcoast and Peace River, which are two companies in which he held holdings, as to the Westcoast Transmission, were any of those shares acquired other than at the market, to your knowledge?

MR. McDONALD: They must have been acquired at the market because I have no other knowledge about them.

Q. Then we have Mr. Hetherington owning shares in all of the four companies.

MR. McDONALD: Yes.

Q. Were those shares acquired at the





market or were they in any instance acquired at less than market?

MR. McDONALD: Well, I, of course, can only speak with regard to Westcoast, and I am certain those were acquired at the market.

MR. PATTILLO: Mr. Hetherington is here.

Perhaps we can ask him as to his holdings in Peace

River Natural Gas, Inland Natural Gas and Pacific

Petroleums Limited.

Were any of those shares acquired at less than market price?

MR. HETHERINGTON: The shares of Inland were acquired on an arrangement that was somewhat below the market.

Q. Would you explain what that is, Mr. Hetherington?

MR. HETHERINGTON: It was an option arrangement to purchase these shares over a period of time.

Q. At what price?

MR. HETHERINGTON: I don't recall the price, but I think it was a variable price, and at that time I don't exactly recollect.

Q. Can you tell us whether the price was based on the market price at the time of takedown?

MR. HETHERINGTON: No, I think it was based on the market price at the time we issued the option.





Q. Can you tell us, then, what the original takedown price was in relation to the then market?

MR. HETHERINGTON: I don't remember exactly what it was, but it was something below market.

Q. Will you get that information and file it with us, please?

 $$\operatorname{MR.}$$ HETHERINGTON: I will do what $\operatorname{Mr.}$ Chambers suggests.

THE CHAIRMAN: I beg your pardon?

 $$\operatorname{MR}$.$ HETHERINGTON: I say I will do what $$\operatorname{Me}$.$ Chambers advises me.

MR. CHAMBERS: I think we will file it.

THE CHAIRMAN: Thank you.

MR. PATTILLO: Q. As to Pacific Petroleums Limited, did you acquire those shares at the market or something less than the market?

 $$\operatorname{MR}.$$ HETHERINGTON: No, they were again secured at a price below the market at the time I bought them.

Q. And can you recall what the arrangement was, or would you like to file that information?

MR. HETHERINGTON; No, I remember I got

those shares at \$10.

Q. What was the then market price?

MR. HETHERINGTON: Well, at the time
that that option was issued the price was about \$10.





Q. Did you immediately take them up or have you been taking them up from time to time since?

MR. HETHERINGTON: No, I have been taking them up over a period of time.

- Q. But at the time the option that was given to you was the same as the then market price?

 MR. HETHERINGTON: Yes, that is right.
- Q. Now, do any of the officers of any of the purchasing companies, that is Pacific Northwest or B.C. Electric or Inland, own shares in West-coast Transmission, to your knowledge, Mr. McDonald?

MR. McDONALD: I can't recollect, but I am sure that the prospectus is filed in respect of all of those parties; if they are financed in the United States their financing would indicate that -- Pacific Northwest has filed one or two prospectuses and certainly it would show it. I have no knowledge what the British Columbia Electric people ---

Q. As to the people with the producing companies that are selling do you know whether any of the officers of those companies hold any shares in Westcoast?

MR. McDONALD: I have no knowledge. They may not have acquired them in the market; I have no idea.

Q. Do any of your officers own shares in any of the producing companies that are supplying





to Westcoast other than Pacific Petroleums, that would be Sunray ---

MR. McDONALD: Oh, I have no idea ---

Q. You don't know?

MR. McDONALD: -- about that.

Q. Right.

Now, Mr. McDonald, has there been any study made in recent months of the possibility of the merger or amalgamation of Westcoast Transmission with any other company?

MR. McDONALD: Definitely not, not by me, as managing director, nor has it ever been mentioned to directors of Westcoast that I know of.

Q. Has there been any study made of a possible amalgamation or merger between the Phillips and Sunray and Pacific Petroleums?

MR. McDONALD: Not to my knowledge.

Q. Right.

MR. McDONALD: And I might say that I have asked Mr. McMahon sometime ago about these rumours to which you refer, and he said there is absolutely no foundation in them, as he has expressed to the public several times.

MR. PATTILLO: Thank you.

THE CHAIRMAN: I wonder if you could help me with a calculation, without me trying to make it. On page 6 of your Exhibit C-18-1, the supplementary statement, with respect to securities



which you filed yesterday ---

MR. McDONALD: Yes?

THE CHAIRMAN: On page 6 you account for 625,000 shares, and I am correct, am I not -- I will ask you to tell me how many of those 625,000 shares went to the United States? Some went to Eastman Dillon and some went to Mr. Charterman or whoever the name was, some went to Mr. McMahon, and so on. How many went to Canadian residents and how many went to non-residents of Canada of the 625,000?

MR. McDONALD: Yes, I think I have that here.

THE CHAIRMAN: Yes, I knew you would have.

MR. McDONALD: Mr. McMahon, his issue was

154,687.

THE CHAIRMAN: You don't need to break it all down.

MR. McDONALD: No.

THE CHAIRMAN: Just give me the Canadian and non-resident. I know by going all through your records I can work it out, but while you are here I am going to ask you.

MR. PATTERSON: While Mr. McDonald is doing that, might I clean up the matter we overlooked of filing the statement of shareholders, directors and officers of Westcoast Company Limited, which will become C-19-1.





---EXHIBIT NO., C-19-1:

Statement of Shareholders, Directors and Officers of Westcoast Company Limited.

MR. McDONALD: The total, Mr. Chairman, that was issued to United States residents, including Mr. Parker, 321,876.

THE CHAIRMAN: Call it 322,000.

MR. McDONALD: Yes.

THE CHAIRMAN: That would leave 303 that went to Canadian residents?

MR. McDONALD: Yes, that is so.

THE CHAIRMAN: Correct.

Then you will note the next item on page 6, issued May 1st, 1956, 3,886,000 shares. I am trying to figure how that 3,886,000 shares was made up -- in total?

MR. McDONALD: Yes. The calculation I made at the time showed that about 55 1/2 per cent, 55 1/2 per cent of those shares or in that neighbourhood -- I was unable to find my notes, so I can't give it exactly -- were actually issued to Canadian registry, Canadian residents; of the balance 1,127,750 went to Pacific Northwest and 615,000 shares were attached to the subordinate debentures. So that only the remainder was general distribution in the United States.

THE CHAIRMAN: Well, I may be mistaken in the prospectus, but how many offers have you had



to the public in the United States, I mean of the securities ---

MR. McDONALD: Two offers.

THE CHAIRMAN: As far as I can find -you tell me whether I am right, because I don't want to be wrong in it -- as far as I can ascertain from my calculations that with the exception of the stock that went privately to residents of Canada, there was no offering of shares of Westcoast to any Canadian shareholder except in the Series C subordinated debentures, if they converted the debentures, in which case Canadian residents, assuming that they purchased and held their 12,700,000 proportion or part of the \$25 million issue of those debentures, would be entitled, as I see it to have attached to those approximately 360,000 shares, so that the only way the Canadian could get an interest in the equity of this company was through purchasing the subordinated debentures Series C, 5 1/2 debenture. Now, am I right?

MR. McDONALD: Yes, you are right in that sense of the public offering of shares. The offer of May 1st was a private offering; there was no public offering on May 1st; that is a large group of shares.

THE CHAIRMAN: That was not, then, a public offering?

MR. McDONALD: Except the 615,000 shares

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which were attached to the subordinate debentures, which you just referred to.

THE CHAIRMAN: That is right.

MR. McDONALD: Yes.

THE CHAIRMAN: But you did offer to the shareholders of the United States through Eastman Dillon & Company in April, 1956, 615,000 shares, part of units of \$100, the 5 1/2 subordinate debentures, 3 shares of capital stock, so that through Eastman Dillon & Company residents of the United States had an opportunity to purchase at that time 615,000 shares. Am I right?

MR. McDONALD: Except that the underwriting list which was in the prospectuses indicates
that Canadian underwriters purchased 20 per cent.

THE CHAIRMAN: Well, let's get that. Where is that?

MR. McDONALD: Just a moment.

THE CHAIRMAN: I want you to refer me to this prospectus, anything from which you have got that information.

MR. McDONALD: Page 44 of the prospectus

-- April 26, Nesbitt, Thomson & Company are listed
as purchasing 49,200 shares, which was part of the
unit, you see, Norman R. Whittall, 24,600; Wood,
Gundy & Company, 49,200. In other words, there was
a proportion of the Eastman Dillon group, the financial house of Eastman Dillon, 124,500 shares which

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did find its way to Canada. I have estimated that at something in the neighbourhood of 40,000 shares, I think.

THE CHAIRMAN: If you total those my arithmetic makes it approximately 125,000.

MR. McDONALD: That is right, Mr. Chairman.

THE CHAIRMAN: Is that correct?

MR. McDONALD: 20 per cent of 615,000.

THE CHAIRMAN: Well, it is just about right.

MR. McDONALD: Yes.

THE CHAIRMAN: Tell me further, did those underwriters in Canada who were part, apparently, of this -- I suppose you would call it the underwriting group ---

MR. McDONALD: Yes.

THE CHAIRMAN: -- although my prospectus just has Eastman Dillon it ---

MR. McDONALD: It just happens to be the prospectus.

THE CHAIRMAN: I didn't mean intentionally misleading ---

MR. McDONALD: No.

THE CHAIRMAN: Did these underwriters who purchased these units and thereby got the stock offer those securities to the Canadian public?

MR. McDONALD: Yes, in the Provinces of Alberta and British Columbia.

THE CHAIRMAN: On which there was an

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unofficial or just a verbal understanding that this
20 per cent, this convertible debenture -- not
convertible debenture -- 20 per cent of the subordinate debenture Series A would be offered through
the offices of Nesbitt, Thomson; Wood, Gundy and -in their offices in Alberta and British Columbia -that was for the purpose of giving the people in
these two Provinces priority in buying these units?

MR. McDONALD: Nothing further.

THE CHAIRMAN: Giving them an opportunity to buy them?

MR. McDONALD: In the Western Provinces.

THE CHAIRMAN: Yes, quite properly.

MR. McDONALD: Yes.

THE CHAIRMAN: Then when we add it all up we have 125,000 shares approximately offered as part of a unit placement in connection with United States dollar subordinate debenture Series A?

MR. McDONALD: That is right.

THE CHAIRMAN: To people in the Province of Alberta and British Columbia?

MR. McDONALD: That is right.

THE CHAIRMAN: Correct?

MR. McDONALD: Yes.

THE CHAIRMAN: And then there was no other offering of shares to the Canadian public except, as I say, if a person purchased a 5 1/2 per cent Series C debenture, and assuming that he held that

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purchase and coverted it eventually and they were all held in Canada there could be a further 360,000 shares?

MR. McDONALD: Yes, that is so, as far as public offering is concerned, but the balance of the shares issued on May 1 were purchased in New York by a group of Canadians equivalent to about 55 1/2 per cent of the then outstanding shares. I purchased my shares, for instance, in New York as part of the private placement, the group.

THE CHAIRMAN: You knew what was going on?

MR. McDONALD: That is true.

THE CHAIRMAN: And the man in the street in Canada didn't know?

MR. McDONALD: Yes.

THE CHAIRMAN: Is that right?

MR. McDONALD: Yes, I think so.

THE CHAIRMAN: So that rightly or wrongly very little opportunity has been given to Canadians, the Canadian public, to invest in the equity of this vast enterprise?

MR. McDONALD: Not otherwise than is disclosed.

THE CHAIRMAN: That is right, isn't it?

I mean, 125,000 shares in the Western Province,

360,000 shares, of the convertible debentures, they

voted a total shares issued of almost 5 million

for cash, 4,825,890.

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MR. McDONALD: I think that is true.

THE CHAIRMAN: It is not an unfair state-

ment, is it?

MR. McDONALD: No, that is what occurred.

THE CHAIRMAN: That is what occurred and

that is how your financing happened to work out?

MR. McDONALD: Yes, for what we think were justifiable reasons.

THE CHAIRMAN: Well, I do not want to quarrel with that. Thank you very much.

MR. FRAWLEY: May I ask a question?
THE CHAIRMAN: Yes.

BY MR. FRAWLEY (Cont'd):

Q. Mr. McDonald, what would you say is the explanation for the Chairman's not unfair statement as to how you did finance?

MR. McDONALD: Well, the group who promoted Westcoast from 1948 until its culmination assumed all the risks, purchased the shares, had the shares available to them and they were distributed privately. They were not offered to the public generally. There was a demand for shares and they were just delivered.

- Q. Mr. Frank McMahon is a Canadian?
 MR. McDCNALD: Oh, yes.
- Q. I am just wondering, did he not find it convenient or profitable to seek C nadian money and Canadian associates?

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MR. McDONALD: Well, Mr. Frawley, there was no seeking anything. There were lots of people who wished to buy these shares. There was no necessity of offering it to the public. A great many people were interested in buying them.

Q. I do not want anybody to think I used the word "seeking" in any untoward meaning, but I wondered if there were not Canadians coming to him, if he was not seeking, that they were seeking him; were there no Canadians seeking him and seeking investment in this enterprise?

MR. McDONALD: Oh, yes, every friend I ever had came to me.

THE CHAIRMAN: There are lots of us who wish we had been your friends.

MR. FRAWLEY: Q. This was later on, was it?

MR. McDONALD: Well, this was after the shares were issued.

Q. They came in successive waves?

MR. McDONALD: I am being facetious, to some extent, Mr. Frawley. I hope that is appreciated, Mr. Chairman.

THE CHAIRMAN: Oh, yes, a little humor is a good thing.

MR. FRAWLEY: Q. You remind me of the man in the soccer pool who won something and whose friends all came around.

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I wonder how that distinction came about, whether it was accidental or whether that is where the money was that came forward to Mr. McMahon and why Canadian money did not come forward in the early stage?

MR. McDONALD: You want to know why Canadian money did not come forward?

Q. Yes.

MR. McDONALD: I don't think anybody in Canada ever thought we would make this project go, except ourselves.

Q. And the Americans?

MR. McDONALD: And the Americans.

MR. FRAWLEY: That is all.

MR. GOLDIE: Mr. Chairman, I appear for
British Columbia Electric Company Limited. Over the
past few days there have been references develop in
the evidence to contracts to which B. C. Electric is
a party. Under ordinary circumstances, it might be
desirable to develop those references by some questions
directed to the Westcoast witnesses. However, I am
in this position ---

THE CHAIRMAN: Would you mind giving your name?

MR. GOLDIE: I am sorry, Mr. Chairman; Goldie

THE CHAIRMAN: Your full name and from where

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MR. GOLDIE: D. M. M. Goldie; I come from Vancouver and I appear for British Columbia Electric Company Limited.

THE CHAIRMAN: Thank you.

MR. GOLDIE: I was about to say that I am in this position, however, Mr. Chairman: the official of the B. C. Electric who is most familiar with these contracts, Mr. A. D. Robertson -- he largely negotiated them and is also most familiar with the history of the B. C. Electric submission of the Westcoast before the Federal Power Commission and elsewhere -- Mr. Robertson has been out of the country since December 13th, and he returned only last Sunday. I spoke to him on Sunday and endeavoured to bring him up to date on the Commission's progress but it was quite obviously impossible for him to bring himself up to date on everything that has gone on to date.

My request, Mr. Chairman, is this: Mr.

Robertson will peruse the transcripts and, as soon
as we are able and, in any event, by not later than

March 1st, I will advise Mr. Pattillo if I think
there is anything to be gained by asking him to
allow us to direct questions to the Westcoast
witnesses at that time or whether it would be better
if we developed these references to B. C. Electric
contracts in that company's own brief.

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Now, I realize the Commission has a great deal before it and I am suggesting that the situation be looked at at the time that we advise Mr. Pattillo of what we think is best from our position and if, at that time, the Commission's commitments are such that it would be inconvenient for them to ask the Westcoast witnesses to come back, then we shall develop it in our own brief.

That is, shortly, my position at this time, Mr. Chairman.

THE CHAIRMAN: Well, Mr. Goldie, the Commission will take your request under advisement. I doubt very much that it would be convenient, on the 1st of March, because the 1st of March is a Saturday and the 2nd is a Sunday and the 3rd is a Monday and we terminate our sittings in Calgary at that time.

The Commission's every day is fully filled, completely filled between now and then. However, the Commission will discuss it and we will discuss it with counsel and the secretary of the Commission and see what we can do. We do not want to keep these of ficials of Westcoast all the time and that applies, of course, to all companies, bringing them back and forth. However, do not let us get into a discussion about it but we will consider it and do our best to meet the problem, but I just want to know from you clearly that, if we cannot

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reach or meet the problem in that way, we can deal with the matter when you submit your brief on behalf of the B. C. Electric, is that it?

MR. GOLDIE: Absolutely. There is no question about that. If it does not meet the convenience of the Commission, in one way, it will be done the other way.

THE CHAIRMAN: Thank you. I will let you know shortly.

MR. GOLDIE: Thank you.

THE CHAIRMAN: Mr. Pattillo, does that terminate your examination of the Westcoast sub-

MR. PATTILLO: It does, Mr. Chairman.

THE CHAIRMAN: You have no questions,
Mr. Frawley?

MR. FRAWLEY: No further questions.

THE CHAIRMAN: Thank you very much,

Mr. McDonald and Mr. Hetherington and your colleagues, for submitting yourselves to the examinations as you have. There may be, from time to
time, some further information that we may ask
you to get for us, which I am sure you will do, and
you know, of course, that we are only trying to get
at the facts in order to try to make recommendations
with respect to policies.

MR. McDONALD: I might say, Mr. Chairman, if there is anything that Westcoast can do to assist



the Commission we will be glad to do it.

I would also like to let the Commission know that, in regard to the further matters we have had reference to, for instance, regulation, financing of the pipeline and matters of that kind, it had been my intention to prepare a further brief dealing specifically with the history of the regulation of the gas projects in the United States and to do the best we can and suggest to the Commission what form of regulation would be in the interests of all concerned in Canada, and I hope to be able to place before the Commission, make available to the Commission witnesses from the United States who will be able to deal with the matter from an expert opinion point of view.

THE CHAIRMAN: Thank you very much, Mr. McDonald. The officials of the Commission will be in touch with you about that. We would like very much to hear such submissions.

MR. McDONALD: Yes.

THE CHAIRMAN: Thank you. Now, gentlemen, I think, if convenient, before the next submission, which is that of Trans-Canada Pipe Lines -- is it, Mr. McNeill?

MR. McNEILL: That is correct.

THE CHAIRMAN: That is our schedule, is

it not, Mr. Pattillo?

MR. PATTILLO: Yes, Mr. Chairman.

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I think it would be a good idea if we all had a

ten-minute recess.

--- A short recess.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearing.

Is Mr. Goldie in the room?

Well, the Commission has decided it would be preferable if the B. C. Electric would put their information in the brief which they, in due course, will be submitting to the Commission, and perhaps Mr. Parkinson or Mr. Pattillo, if you would take the responsibility of informing Mr. Goldie of that position.

MR. PARKINSON: Yes, Mr. Chairman.

THE CHAIRMAN: Mr. Pattillo, I believe now we have the submission of Trans-Canada Pipe Lines?

MR. PATTILLO: Yes, Mr. Chairman, and if we might have Mr. McNeill submit for marking, if he has not done so, the main document and the appendices relating to it which would be read, that would be the proper procedure, I think.

Submission of

TRANS-CANADA PIPE LINES LIMITED

APPEARANCES:

Mr. N. J. McNeill - Counsel

Mr. F. P. Layton - Associate Counsel

Mr. Charles S. Coates - President

Mr. William B. Tippy - President of Common-wealth Services Inc.

Mr. H. Dix Fowler - Vice-President

Mr. Paul F. Clarke - General Partner of
Lehman Brothers,
Investment Bankers,
New York, N.Y.

Mr. R. C. Berry - Vice-President and Treasurer

Mr. Ralph S. Orme - Natural Gas Consultant, Commonwealth Services Inc.

Mr. V. L. Horte - Chief Gas Supply Engineer

Mr. Gladstone Stewart, Jr. - Vice-President,
De Golyer and
MacNaughton, Dallas,
Texas

Mr. A. D. Nesbitt - President, Nesbitt,
Thomson & Company,
Investment Bankers,
Montreal, P.Q.

Mr. N. E. Tanner - Chairman of the Board

MR. McNEILL: Mr. Chairman, Trans-Canada

Pipe Lines Limited has filed the submission, including

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studies by Commonwealth Services, Inc., the first of those studies which you will find in the pocket of the submission binder, entitled "A Discussion of the Factors Relating to Transmission and Marketing of Natural Gas, February, 1958". The second document is entitled, "Present and Potential Canadian and Export Natural Gas Markets of Trans-Canada Pipe Lines Limited," also dated February, 1958.

MR. PATTILLO: Now, if we might have this submission marked C-19-2 and the document headed "A Discussion of Factors Relating to Transmission and Marketing of Natural Gas" as C-19-3 and the document headed "Present and Potential Canadian and Export Natural Gas Markets" as C-19-4.

---EXHIBIT NO. C-19-2: Submission of Trans-Canada Pipe Lines Limited.

---EXHIBIT NO. C-19-3: Booklet entitled "A Discussion of Factors relating to Transmission and Marketing of Natural Gas".

---EXHIBIT NO. C-19-4: Booklet entitled "Present and potential Canadian and Export Natural Gas Markets".

MR. PATTILLO: Mr. McNeill, whoever is going to present the brief, perhaps Mr. Coates -- is he going to do all of the reading?

MR. McNEILL: I might say, sir, in that connection, that Mr. Coates will read the submission of Trans-Canada and, in connection with that submission

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we propose that there be also read certain portions of the text of each of the two studies of Commonwealth Services, Incorporated.

In connection with the portions to be read from Erhibit C-19-3, Mr. William B. Tippy, President of Commonwealth Services, Inc., will read that portion and, in connection with the third exhibit, C-19-4, Mr. Ralph Orme, also of Commonwealth Services, who is responsible for the production of that report, will read those portions.

Before asking Mr. Coates to proceed with the submission, I would like to point out that in addition to Mr. Coates, Mr. N. E. Tanner, the Chairman of the Board of Trans-Canada, is present here today and will be available at the Commission's convenience for any questions that may be directed to him.

examination on various of the material that we have submitted as a portion of our brief, as well as material that we have supplied the Commission staff at their request, we have here a group of experts, all of whom are listed under Appendix A of the submission, and to that list I wish to add one further name, that of A. D. Nesbitt, President of Nesbitt, Thomson & Company, Investment Bankers, with head offices in Montreal, Quebec.

One further question arises, sir, which



gave some minor problems: in the event that material or information is required concerning shareholdings and other corporate matters of Trans-Canada that would ordinarily be testified to by the Secretary of the company, I am here this morning in perhaps a dual capacity; I am the Secretary of the company and, if it is satisfactory to the Commission, I would propose that Mr. R. C. Berry, Vice-President and Treasurer of the company, perhaps in consultation with me, would be able to supply any material of that type that you might need.

I would like to add one further point, sir, in connection with Exhibit C-19-4, what we might briefly call the market study. This document is very new; it has been received within the last four or five days, having been only completed at that time. All of the engineering cost estimates and matters of that nature have been calculated on an earlier document. It may well be that Trans-Canada will have to ask the indulgence of the Commission, at times, when it may be requested that our calculations be based on this newer market report. I think, perhaps, we can deal with that as the occasion may arise.

Thank you, sir.

THE CHAIRMAN: Thank you, Mr.McNeill.

Mr. Coates, do you propose to lead off?

MR. COATES: Yes, sir.

Mr. Chairman and members of the Commission, as President of Trans-Canada Pipe Lines Limited, may I say that it is with pleasure that I appear here today to present and describe to you the material prepared and assembled by our Company for your consideration in this phase of your hearings.

We have endeavoured in preparing and assembling our material to deal fully with the subject matter suggested in the syllabus circulated by your Commission in so far as the same may pertain to a gas pipe line transmission company and also to meet all requests made by your staff. The assure you at this time that we will supply you with any other or further material that you may deem necessary.

With me today are Messrs. Tippy, Fowler, Clarke, Nesbitt, Berry, Horte, Stewart and Orme. These gentlemen are here to answer any questions that you may have. The qualifications and general scope of testimony of each are set out under Tab A following this text.

It is the understanding of Trans-Canada that in the present stage of your hearings it is not desired that any submission be made covering the various policy matters included in the Commission's terms of reference, but that such submissions will be received at a later date. Trans-Canada desires to make such a submission at the appropriate

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time.

It is our further understanding that
our submission with respect to the terms of reference
which specifically pertains to Trans-Canada will
also be received at a later date to be fixed by
the Commission. In connection with this latter
submission, Trans-Canada proposes to submit to you
all the pertinent facts comprising its history from
the time of its incorporation up to the present time.

Reports and Other Documents: Pursuant to the requests of the Commission staff, we have filed various reports, contracts and other documents which have been prepared in the past in the course of the development of the Trans-Canada project.

These are contained in seven binders. The material in each binder has been grouped as nearly as practicable according to subject matter. I will briefly describe the contents of each binder.

1. Financing Documents: This binder entitled "Financing Documents" contains a copy of each of the documents evidencing the initial financing of Trans-Canada in February, 1957. These documents, particularly the Prospectus, set out completely the details of that financing. An additional copy of the Prospectus may be found under Tab B following this text. At the present time the following securities are issued and outstanding:

Security	Amount
First Mortgage Pipe Line Bonds	
5-1/2% Series due 1978	\$8,347,000
5-1/4% Scries due 1978	\$29,391,000 (U.S.)
5-1/4% Bank Loan due March 1,1962	\$7,262,000 (U.S.)
Subordinated Debentures due 1987	
5.85% Canadian Series	\$54,166,700
5.60% United States Series	\$20,833,300 (U.S.)
Common Shares outstanding	5,853,184 shares

The remaining bond closings will take place on May 1 and August 1 of this year. As a result of those closings the Company will issue the remaining \$14,663,000 of the 5-1/2% bonds and \$51,599,000 of the 5-1/4% bonds and will have borrowed the remaining \$12,738,000 of the 5-1/4% bank loan.

2.and 3. Economic Feasibility Report: In addition we have filed, in two volumes, the "Economic Feasbility Report dated September 1956 with Supplements". This report was prepared by Commonwealth Services Inc. for and at the request of the bond purchasers and the underwriters of the junior securities on Trans-Canada's initial financing. Commonwealth Services Inc. is the independent engineer provided for in the Deed of Trust and Mortgage. As such this firm will, from time to time, make reports on various phases of the Trans-Canada system to the bond purchasers.

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> 4. & 5. Reports on Certain Gas Reserves and their Deliverability: The first of these reports by DEGolyer and MacNaughton is entitled "Report on Certain Natural Gas Reserves Available to Trans-Canada Pipe Lines Limited, as of January 1, 1957". This report was prepared for presentation to the Federal Power Commission at the hearing in Washington, D. C., respecting the proposed import of gas near Emerson, Manitoba, by Midwestern Gas Transmission Company pursuant to the contract with Trans-Canada. The report is prepared in the form customary for presentation to the Federal Power Commission and contains estimates of the gas reserves available to Trans-Canada under the lands subject to the gas purchase contracts of Trans-Canada as of the time of the report. The report also contains estimates of the reserves in each of the fields in which the contract lands are located. In addition to the summary sheets showing these reserve estimates by the contract lands and by fields, the report contains the customary tables setting forth the supporting data and the reservoir maps relied upon by the estimators.

The second report is by the same firm and is entitled "Report on Deliverability of Certain Natural Gas Reserves Available to Trans-Canada Pipe Lines Limited, as of January 1, 1957". This

report was also prepared for submission to the

Federal Power Commission and was submitted at the
same time as the Reserve Report just described.

The report contains illustrative deliverability
schedules of the various gas reserves described
in the Reserve Report, showing how these reserves
could be used to meet the requirements of TransCanada as set forth.

6. Contracts other than Gas Sales Contracts:
This binder contains the following contracts:

The first item is a copy of the gas

purchase contract dated the 18th day of January,

1957 between Trans-Canada and Home Oil Company

Limited for the Nevis field; followed by a one-page

summary of each of Trans-Canada's presently exe
cuted gas purchase contracts. While each gas pur
chase contract varies from others to some extent the

full contract that has been filed is, we consider,

typical of the majority of our gas purchase contracts.

The second item is a copy of Trans-Canada's transportation agreement with The Alberta Gas Trunk

Line Company Limited. Briefly, this contract sets out the terms and conditions under which

Trunk Line will transport Trans-Canada's gas from the Alberta fields to the western terminus of Trans-Canada's line.

Item three is a copy of the agreement between Trans-Canada and Her Majesty the Queen in

Right of Canada dated November 21, 1955, together with all subsequent amendments and supplements (including the assumption of that agreement by the Northern Ontario Pipe Line Crown Corporation) providing for the construction by the Crown Corporation of that portion of the pipe line system between the Manitoba-Ontario border and the vicinity of Kapuskasing, Ontario, and the terms under which Trans-Canada shall rent and operate that portion of the pipe line and in due course purchase it.

Items four to nine are copies of employment and stock option agreements between Trans-Canada and Messrs. Tanner, Wallace, Atkinson, Craig, McNeill and myself.

7. Gas Sales Contracts: The binder entitled "Gas Sales Contracts" contains a copy of each of Trans-Canada's present gas sales contracts including the contract covering Trans-Canada's proposed sale to Midwestern Gas Transmission Company at the United States border near Emerson, Manitoba.

In connection with the proposed Emerson sale we have prepared a tabular comparison of the sale price under the contract for that sale with the rate schedule available to any purchaser in the Manitoba rate zone under similar load factor and other service conditions. This comparison will be found under Tab C following this text.

We have also included under Tab C a

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summary table of all of Trans-Canada's present rate schedules available in Canada.

Turning specifically to the subject matter outlined in the syllabus for this oil and gas section of the Commission's hearing, we now propose to deal with the topic, "Transportation and Market", as the same pertains to natural gas.

The Pipeline: The Trans-Canada system

as planned and now under construction extends across

Canada approximately 2,300 miles from a point

within Alberta to the cities and communities in

Eastern Canada.

The western terminus of the pipe line is located inside Alberta approximately one mile from the Saskatchewan border. This point is commonly referred to as the "Saskatchewan Gate". From the Saskatchewan Gate, the pipe line follows the Trans-Canada highway eastward from the Alberta border to the Port Arthur-Fort William area, then northward along highway 11, across the clay belt of northern Ontario and then southward to Toronto. From Toronto the pipe line skirts the highly developed north shore of Lake Ontario to the presently planned terminus on Montreal Island. Under Tab D following this text you will find a map showing the general location of the pipe line and the populated areas within radius of service of the pipe line, as well as certain contemplated extensions to serve

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future, potential markets. Also shown on the map are existing and proposed connecting pipe lines of customer distribution companies and the existing connection at Niagara Falls with the system of Tennessee Gas Transmission Company. The map also shows the system of Alberta Gas Trunk Line, which system receives gas purchased by Trans-Canada in the Alberta fields and transports it to the Saskatchewan Gate.

For convenience in making a more detailed description, the system may be divided into three general geographic sections.

The Western Section extends from the Saskatchewan Gate to a point near Winnipeg and consists of approximately 585 miles of 34-inch diameter pipe.

The Central Section connects with the Western Section, at which point the pipe size reduces to 30 inches in diameter and extends some 1,245 miles to a point near Toronto. The Crown Corporation is constructing 675 miles of this section extending from the Manitoba-Ontario border to a point near Kapuskasing. Trans-Canada is constructing the other 570 miles. The 85 miles from near Winnipeg to the Manitoba-Ontario border has been completed by Trans-Canada and 310 miles from the Manitoba-Ontario border has been completed by the Crown Corporation.

The Eastern Section commences at this point near Toronto and has been constructed by Trans-Canada. At this point near Toronto the system branches into two lines, a 20-inch line extending 310 miles eastward to the terminus on Montreal Island, with a 12-inch diameter line some 36 miles in length extending from a point near Morrisburg northward to Ottawa. The other branch commences as a 24-inch pipe line and extends 33 miles in a south-westward direction from Toronto to connect at Sheridan with the 76-mile, 20-inch line, that serves the Niagara Peninsula of Ontario.

Construction Progress: Under Tab E

following this text you will find a document entitled,

"Construction Progress Report, January, 1, 1958".

This report sets out the progress made to the end

of 1957 in the construction of the system and, in

addition, sets out in general terms the plans for 1958

construction by Trans-Canada and the Crown Cor
poration. I might say also, sir, that this

report is a report that we issue monthly to keep

interested parties informed as to the progress

that has been made. I will read the general

summary set out on the initial page of that report

This is a report on the status of construction on the 2294-mile natural gas transmission system of Trans-Canada Pipe Lines
Limited as of January 1st, 1958.

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At the close of the first full year of construction, 1360 miles, or well in excess of 60 per cent of the initial system, had been installed.

Of this total, approximately 1130 miles have been tested and have been approved by the Board of Transport Commissioners.

Trans-Canada has completed, tested and placed in operation:

All of the 34-inch diameter line between

Alberta and Tinnipeg; the portion of the 30-inch

needed to connect with the Crown Corporation

section at the Manitoba-Ontario border; and the

eastern division, which includes the 24 and 20-inch

line between Sheridan and Montreal and the 12-inch

extension to serve Ottawa.

Under the terms of a contract with the Northern Ontario Pipe Line Crown Corporation, Trans-Canada is responsible for the design, engineering, acquisition of right-of-way and supervision of construction of the "Crown Section" -- the 675-mile stretch of the system between the Manitoba-Ontario border and Kapuskasing. This particular section is being constructed by the Crown and will be leased to Trans-Canada. The westerly portion of this section -- 310.7 miles from the Manitoba border to Port Arthur, Ontario, has been completed except for testing which is in progress.

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contracts have been let by both Trans-Canada and the Crown Corporation for construction of the balance of the initial system from Port Arthur to the Toronto Junction. The contractors have moved in and are unloading materials and clearing right-of-way in preparation for an early start in the spring.

Since the date of the report, testing has been completed to Port Arthur and Fort William and natural gas service commenced. Approximately sixty per cent of the initial pipe line construction, including that portion being constructed by the Crown Corporation, is now complete.

I might say also since the report of January lst, service has started to Montreal and to the intervening area between Toronto and Montreal by the system.

Compression and Capacities: The capacity of the pipe line which Trans-Canada is installing is very flexible, depending upon the amount of compression installed. At the time of the Economic Feasibility Report of Commonwealth Services Inc. for the initial financing, the compression therein dealt with gave a pipe line system of an initial intake capacity of 300 million cubic feet per day, increasing to 560 million cubic feet per day by the commencement of the fifth full year of operation, November 1, 1962. By the addition of compression only, the capacity of the system could be increased to an intake capacity of

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962 million cubic feet per day.

As noted, this expansion is with compression only. No doubt a portion of this expansion and further expansion will be accomplished by a combination of partial looping and compression and ultimately, complete looping and compression. The decision of whether or not to use compression or looping, or a combination of both, is primarily a matter of economics to be examined at the time of each expansion of the system.

Under the present plans, the Company is installing more horse power this year in the initial system than was originally contemplated in the Economic Feasibility Report. This will involve the installation of six compressor stations during the 1958 construction season. Three of these stations will be located on the Mestern Section and will each contain 10,200 horse power. The fourth station containing 7,500 horse power, will be located at the beginning of the Central Section near Winnipeg. The fifth station, containing 5,000 horse power, will be located on the Central Section near Port Arthur and will be constructed by the Crown Corporation. The sixth station, containing 5,400 horse power, will be installed by Trans-Canada on the Central Section near North Bay, Ontario.

The Company plans to increase the system

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capacity initially as market developments require or justify by installing intermediate compressor stations or by adding horse power to the existing stations. This method of expansion will readily meet the growing Canadian requirements and the Emerson sales load for several years.

Capital Investment in Facilities: The total capital investment in the system described to be completed by November of this year is, of course, not yet known. However, experience to date shows that the estimate of cost of constructing the pipe line, as contained in the Economic Feasibility Report, will be adequate. We still estimate, therefore, that the pipe line, when completed this year, will cost (exclusive of allowance for working capital):

<u>Trans-Canada</u> <u>Crown Corporation</u> <u>Total System</u> \$213,916,000 \$115,060,000 \$328,976,000

The cost of installing the 48,500 horse power of compression this year is estimated to be

 Trans-Canada
 Crown Corporation
 Total System

 \$17,531,000
 \$2,015,000
 \$19,546,000

Total estimated costs of pipe line and compression as of November 1, 1958 is

 Trans-Canada
 Crown Corporation
 Total System

 \$231,447,000
 \$117,075,000
 \$348,522,000

In the Economic Feasibility Report it was estimated that the Trans-Canada system designed

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for an intake capacity of 560 million cubic feet per day would cost, including the Crown Corporation

Section, \$394,763,000. Assuming the additional

Canadian markets and Emerson export market become

available to justify it, the cost of the 962 million

cubic foot system (using additional compression only,

with no loop lines) would cost an estimated

\$521,160,000, which includes a \$3,934,000 allowance

for the lateral to serve Emerson. This cost

estimate might be materially reduced by using a

combination of compression and partial line

looping rather than all compression. The most

economical method will be used.

Operating and other Economic Aspects of
Natural Gas Transmission: We requested Mr. W. B.
Tippy, President of Commonwealth Services Inc. to prepare a discussion dealing with the subject of operating and other economic aspects of Trans-Canada's facilities and the transmission of natural gas in general.

To present such material, and other material which we will highlight later, Mr. Tippy has prepared a report entitled, "A Discussion of Factors Relating to Transmission and Marketing of Natural Gas,
February, 1958" which you will find in the pocket of this submission binder. In that report, commencing on page 18, is a section entitled "Economics of Long Distance Transmission of Natural Gas", followed on page 25 by a section entitled "Effect

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of Competition at the Market Level, Distribution Economics and Transmission Economics on the Price of Gas at the Wellhead".

I will now ask Mr. Tippy to read that material commencing at page 18 of his report.

MR. TIPPY: The report is as follows:

III. Economics of Long Distance Transmission of Natural Gas

> In its simplest form, a long distance natural gas transmission system consists of a large diameter buried steel pipeline capable of operating at high pressure, with compressor stations spaced at intervals along its route. Then fully powered, such a transmission system will have compressor stations located at intervals of approximately 65 miles, resulting in transportation of the maximum volumes of gas through the line at minimum over-all unit transportation cost. At today's prices for labor and materials, a typical long distance pipeline will cost between \$3,500 and \$4.500 per inch of diameter per mile of line (and sometimes higher over difficult terrain), with compressor stations costing \$350 and \$400 per horsepower of installed capacity, all depending upon circumstances encountered in construction. As a result, the typical long distance transmission line

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carries relatively high fixed annual charges relating to invested capital, i.e., depreciation, general taxes, insurance, return on investment and income tax associated with return on investment. Personnel required for operation and maintenance of the facilities are relatively few in number and the total of operating expenses, other than cost of gas purchased, is relatively small when compared with either cost of gas purchased or so-called fixed charges.

Given an assumed level of labor and material costs, there are three major elements which affect the cost of transportation of gas through a long distance pipeline:

1. Distance. The cost of transportation of natural gas through fully utilized pipeline facilities, that is, a transmission line fully powered, with optimum spacing of compressor stations and operated on a steady load at full operating pressure, is generally proportional directly to the distance the gas is transported. Based on the feasibility studies made in connection with financing of the Trans-Canada Pipe Lines Limited line, in the fifth year of operation when the maximum imput to the line is 560,000 Mcf per day, of Canadian sales only, the weighted average cost of transporting

gas per hundred miles is 1.86ϕ per Mcf. As an aside that is a cost of service computed assuming $7\frac{1}{2}\%$ rate of return and income tax associated with such return.

Assuming the sale of 200,000 Mcf per day in export near Emerson, Manitoba, with the total input to the line at 784,000 Mcf per day, the weighted average cost of transporting gas per hundred miles becomes an estimated 1.81¢ per Mcf.

In some instances, where the bulk of the load of a pipeline is concentrated near its terminus, it has been customary in the United States to treat the entire load of the line for rate making purposes as if it were carried to a single point at the line end. However, where the loads are distributed and spaced in substantial quantities over considerable distances along the line, it has become customary to recognize the factor of distance as an important element in the determination of proper costs for delivery of gas to the various loads along the line. Rates are often established by zones, each of which would include a number of delivery points from the line in the same geographical area.

2. Line Diameter. Within rather wide limits, and for a given level of labor and material costs

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in a particular geographical area, it is generally true that the cost of a pipeline is reasonably constant if considered on the basis of cost per inch of diameter per mile of line. This linear relationship does not, however, apply to the capacity of a pipeline as the diameter increases. If the Panhandle flow formula is used in computations of the throughput of the line, and this is general practice for large diameter long distance pipelines, the capacity of the line will increase as the size increases, proportional to the 5/2 (5 halves) power of the diameter (d 5/2). Therefore, if we first consider the pipeline alone, its cost per unit of throughput tends to decrease as the diameter of the line increases. This factor has been the underlying reason for going to continually larger line diameters as pipe making technology has permitted in recent years.

The cost per installed horsepower of compressor stations remains relatively constant regardless of the horsepower installed in the station and, when the line is fully powered, the total compressor station investment is roughly proportional to the throughput of the line, so that no particular advantage is realized from larger diameter lines as to this



that the newer large diameter pipelines, because of their tremendously increased throughput capacity, have tended to offset the added cost in recent years of labor and materials, with the result that the fixed charges per unit of throughput for some of the new large lines are often similar in terms of cents per hundred miles transported to those for some of the older, smaller diameter lines. However, to support a very large diameter line requires rapid development of substantial markets if the project is to be practical and is to arrive at a sound earnings basis in a reasonable period of time.

3. Annual Load Factor. The estimated fifth year average cost of 1.86¢ per Mcf per hundred miles for transportation of gas in the Trans-Canada Pipe Lines Limited line mentioned above, depends upon operating the facilities at virtually full throughput every day of the year, in other words at annual load factors of 95% or higher. It has been noted in an earlier section of this report that the load factor of the general service market requirements may only be on the order of 40%, although the pipeline's rates have been established on the assumption that the pipeline itself will operate at 95%

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load factor or better. Chart II, "Effect of Annual Load Factor on Cost of Pipeline Transportation of Gas, " as an illustrative chart, shows clearly that as the load factor at which a pipeline operates is reduced, the unit cost of transportation per Mcf per hundred miles transported increases rapidly. For example, at 95% load factor operation estimated for the fifth year for the Trans-Canada line as developed in the feasibility study, the unit cost per Mcf per hundred miles transported would be 1.86ϕ , as above stated. Dropping the annual operating load factor to 75% in the fifth year would increase the unit cost of transportation to 2.33¢ and dropping it further to 50% annual load factor would further increase the cost of transportation to 3.46¢ per Mcf per hundred miles transported. It will thus be seen that where pipeline transportation rates have been based on high load factor operation of the pipeline, such as 95%, should the cost of gas to the ultimate consumer be such that it would not be possible to attach the large volume interruptible loads necessary to maintain the high annual load factor assumed in developing the rates, and should the resulting operating annual load factor of the pipeline drop to as low as 50%, the element in

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the pipeline's charges to its distribution company customers for transportation would have to be approximately doubled.

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There is thus a great need for balancing out the loads on a long distance pipeline to attain as high load factor operation as is feasible through the sales of substantial volumes of interruptible industrial gas at relatively low prices to meet competitive conditions, or, where such facilities are available near major markets or near the terminus of the line, through the use of underground natural gas storage, which has the effect of taking, at times when general service gas requirements are small, the remaining low-value summer "valley" gas which would normally be sold at relatively low prices for interruptible industrial purposes and converting such gas to high-value peak time winter gas available to meet firm general service requirements on the coldest days of the winter.

of the pipeline thus have a substantial effect on the rates that a pipeline can charge for its gas.

If the competitive price at which large volume interruptible sales must be made is below the sum of: (1) the cost of gas at the wellhead, plus (2) the incremental cost of gathering and transmission, plus (3) some part of the Fixed Charges of the gathering and transmission system, it may then be impossible to operate the line at a high load factor. This in turn will result in the general service customer absorbing all the fixed charges, thus

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increasing the cost of gas to him by an amount which may approximate 100%. If the competitive cost at which natural gas may be sold for space heating is then not sufficient to cover: (1) the cost of gas at the wellhead, plus (2) the revised unit cost of gathering and transmission, plus (3) the unit cost of distribution, it will not be feasible to extend a pipeline into a particular area in question at all. Thus, the economics of transmission of natural gas depends on a satisfactory balance of types of loads and of price structures from the burner tip of the ultimate consumers through to the pipeline and back to the wellhead in the natural gas field.

It should be noted that the costs per inch mile of line today of \$3,500 to \$4,500 are very high compared to the figures of \$2,000 to \$2,500 per inch per mile which were experienced by the lines built in the United States back in the 1930s. Any line built in an earlier period at lower prices for labor and materials carries an inherent inbuilt advantage as to cost of transportation over any new line whether from Caradian or from new United States sources. This effect is partially offset where the new line can be built of very large diameter pipe and consequently for a large gas throughput. It is the inter-relationship of factors of this type which result in occasional apparent discrepancies in the relative prices of gas laid down by different

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pipeline systems which may be in competition for some major market.

It was noted in the discussion of distribution company economics that the rates charged to the distributor by the pipeline are customarily of two parts -- a demand charge and a commodity charge. United States rate making practice currently assigns all of the cost of gas purchased in the field at a flat price to the commodity charge. Compressor fuel and similar items of out-of-pocket cost which vary with the day-to-day gas volumes transported are also assigned to commodity. Other direct operating labor and material is considered to partake of both demand and commodity elements and is assigned one-half to each. Supervision and engineering expenses are assigned in the same proportion as the assignment of the expenditures supervised, whether demand or commodity, and Administrative and General expense is assigned in proportion to other expenses except purchased gas. The Fixed Charge element -- depreciation, general taxes, return on investment and income taxes associated with return -- is customarily split one-half to demand charge and one-half to commodity, on the theory that the line is not built to serve the maximum day alone (demand) but is also intended to be utilized as fully as possible every day of the year (commodity). Actual pipeline rates are usually Committee to the state of the property of the state of th

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based on such cost allocations, with the final figures tempered by the judgment of the technical rate expert designing the rates to meet the particular circumstances and problems of each individual pipeline system.

IV. Effect of Competition at the Market Level,
Distribution Economics and Transmission
Economics on the Price of Gas at the Wellhead:

It has been noted that a rather complex pattern involving (1) competitive prices in the ultimate market, (2) distribution company economics, making desirable a high load factor purchase of gas from the pipeline supplier, and (3) long-distance transmission line economics, demanding very high load factor operation of fully-developed pipeline facilities if transportation costs are to be kept at a modest level, must all be kept in balance if the market is to grow and the distribution companies and transmission companies are to expand along with a healthy Canadian economy. Should any of the elements get out of balance with the result of pricing some major gas application out of its market, the whole structure goes out of balance. For example, a pricing requirement which would make it impossible to sell interruptible industrial gas would approximately double transportation costs, would in turn materially increase required retail prices for general service gas, and could end up with a compounding effect

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which would also price the general service gas itself out of its market. It has been noted further that as the average annual use of gas per distribution company customer increases, the average cost of distribution per Mcf sold declines, thus tending to improve the competitive margin protecting general service sales. Time is one of the principal ingredients in developing markets to the point where the general service use per customer becomes high and consequently the protective cushion against competition is the greatest.

The maximum supportable price for natural gas at the wellhead at any given time can be computed, although it is a complex computation, starting from the competitive prices at which the various elements in the sales mix can be sold to the ultimate consumer and deducting therefrom: (1) the cost of distribution, including a fair return on the distribution property to keep that company healthy and in a position to expand its business, (2) the cost of transportation by the pipeline supplier, including a fair rate of return on its property as well, and (3) the cost of gathering the gas from the wellhead and transporting it to the starting point of the pipeline. Over-pricing of gas at the wellhead with relation to a given pipeline and marketing system will result, first, in less than a reasonable return being earned by either the

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pipeline company or the distribution companies with
the result that one or the other or both will have
difficulty in financing the investments required
for expansion to meet the requirements of growing
communities. Should the pricing at the wellhead
become too extreme, it can result in a situation
where development of markets comes to a standstill
and ultimately could result in the adverse cascade
effect described earlier, should any major portion of
the market be over-priced to the point where a major
element of the business is lost.

An example of the operation of the foregoing principles on a favorable basis is found in the expansion plans of the Trans-Canada line. It has been noted that operation of the facilities for the fifth year as proposed in the economic feasibility study, but excluding the proposed export of gas near Emerson, with a maximum daily input of 560,000 Mcf to the pipeline, would result in a weighted average transportation cost of 1.86ϕ per Mcf per 100 miles. Addition of the sale of 200,000 Mcf per day at a high annual load factor to export near Emerson as a supplemental supply to an established market area in the United States will immediately increase the requirements of the line for input gas, including necessary compressor fuel, etc., by 224,000 Mcf per day. This will require added development of the gathering system in Alberta to

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take the increased volumes, additional compressor capacity along the 34-inch main line to Winnipeg and construction of a short lateral line to Emerson, but the effect on transportation cost of all sales through the 34-inch line will be a reduction estimated at 0.17ϕ per Mcf per 100 miles and, for the entire transmission system, which is more to the point, the weighted average cost per Mcf per 100 miles will be reduced to 1.81ϕ . The Emerson export would thus hasten the day of financial maturity for the entire Trans-Canada Pipe Lines Limited project, while at the same time benefiting the producers through attachment of a developed high load factor market capable of supporting a modest increase in field price for the additional gas because of its effect in lowering average transportation cost. The distribution company customers of Trans-Canada benefit in having a financially stronger supplier operating more efficiently and at a higher percentage of the potential ultimate capability of its pipeline and thus better able to maintain stable rate structures in the face of future inflationary forces. Stable pipeline sales rates, in turn, permit distribution companies themselves to develop their expanding markets vigorously and also to become financially strong. In addition, it is now believed that these developments may also lead to an accelerated development of the eastern Canada

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markets, with the result that the Trans-Canada construction program may be accelerated to reach full development of the entire line by the fifth year of operation, in which event the input from Alberta, including the export near Emerson, might total 962,000 Mcf per day. Actually it has been established since we wrote this report that that figure even may be exceeded slightly. Under such conditions, the weighted average cost of transportation would remain about the same as with the Emerson sale at 1.83¢ per Mcf per hundred miles.

At this point, if I may, I would like to read a tabulation into the record of unit cost of service. I have a title at the top "Unit Cost of Service", and a sub-title "Cents per Mcf Sold".

THE CHAIRMAN: Is that in our book?

MR. TIPPY: That is not in the book; it is something which has been prepared since the book. We haven't a copy available, but it will be available; it is not mimeographed as yet.

THE CHAIRMAN: Is it long?

MR. TIPPY: Not too long. If you prefer to wait, I will be able to bring that back after lunch.

THE CHAIRMAN: I think we might do that.

MR. TIPPY: Very well.

THE CHAIRMAN: I think this would be an appropriate time. You have finished the text

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here, I think. We will adjourn the hearing of the Commission and will re-assemble at 2.00 o'clock this afternoon.

---Whereupon the hearing adjourned at 12.15 P.M. until 2.00 P.M.

---On resuming at 2.00 p.m.

THE CHAIRMAN: The Commission will resume its hearing. Mr. Tippy, I believe you had finished.

MR. TIPPY: No, I finished except for the reading into the record of this one page tabulation which, I believe, has now been distributed and is labelled "Unit Cost of Service".

THE CHAIRMAN: I think we can take it as read and enter it as an exhibit and then it is on the record unless you wish to explain.

MR. TIPPY: No, I do not care to explain at this point but I would like to add another year. I would like to add between the left hand pair of columns, 1958-1959, and the right hand pair of columns, 1962-63 -- I would like to give you two columns of figures.

Unit Cost of Service

INANO-CANADA PIPE LINES LIMITED

Unit Cost of Service Cents per Mcf Sold

	1958-59	-59	1959-60	-60	196	1962-63
	Without Emerson	With Emerson	Without	With	Without	With
Cost of Gas Sold	14.5	14.5	14.8	14.3	15.6	16.4(3)
Transportation Cost Operation & Maintenance Capital & Fixed Charges*	10.6	8.1	10.3	8.2	4.3	0.13
Total Transportation	5.44	33.0	37.4	29.6	W .	25.2
Total Cost of Service	59.0	47.5	52.2	7° 7717	t -	41.8
Annual Sales Volume, MMCF	101,200	176,200	127,812	184,062	186,656	261,656
Weighted Average Transportation Distance, miles	1429	1150	1440	11.94	669	1394
Transportation Cost per 100 miles	3.12	2.87	° 60	⊗†. *Z	1.86	1.81

⁽¹⁾ At 75% Annual Load Factor

⁽²⁾ At 100% Annual Load Factor

Includes 28.7% gas at 13.88 ϕ per Mcf and 71.3% gas at 11.21 ϕ per Mcf (1%.4 p.s.i.g.) (3)

Includes 7-1/2% Rate of Return and Federal Income Tax associated therewith.





MR. TIPPY: Thank you, sir. I think that concludes my reading.

MR. PATTERSON: We will mark that, then, as Exhibit C-19-5.

---EXHIBIT NO. C-19-5: Table headed "Unit Cost of Service."

THE CHAIRMAN: Those figures are for 1959-60.

MR. TIPPY: 1959-60.

THE CHAIRMAN: All right, Mr. Coates, if you are ready.

MR. COATES: Present and Potential

Canadian and Export Markets: To deal with the subject of present and potential markets, we requested

Commonwealth Services Inc. to prepare a market study
for presentation to the Commission. This study
is contained in the bound volume entitled "Present
and Potential Canadian and Export Natural Gas

Markets of Trans-Canada Pipe Lines Limited,
February 1958". I

I now ask Mr. Orme of Commonwealth Services, who prepared this study, to read the text portion of his report dealing with the Canadian market.

MR. ORME: The report is as follows:

I. General. The attached exhibits show
a projection of the natural gas requirements of

Trans-Canada Pipe Lines Limited to supply both its Canadian and its export markets. The period covered by the projection extends from the year 1957-1958 (November 1 to October 31) to the year 1987-1988. The annual period from November 1 to October 31 is selected to conform with the period of Trans-Canada's contract year. The projection includes both annual and maximum day gas requirements.

In making this market projection the period from 1957-1958 to, and including, 1962-1963 has been treated differently from the later years. The short term estimate, which is shown on Exhibit 5, is based on actual studies of the major market areas. These studies were made in the field in connection with the financing of Trans-Canada and several of its distributing company customers. They represent conditions as found in each of the areas studied, and were made after consultation with responsible operating gas company officials in the respective areas. The projections for the years following 1962-1963 are based on trended projections and industry experience, as described below.

In projecting the annual and maximum day gas requirements of Trans-Canada Pipe Lines
Limited beyond the year 1962-1963 the market
areas served by Saskatchewan Power Corporation

and Union Gas Company and the market areas along Trans-Canada's presently proposed pipelines which are either presently served or proposed to be served by other distribution company customers of Trans-Canada, or appear to be either presently within economic distance from such pipelines, or will be in the not too distant future, were considered separately. In the case of the Saskatchewan Power Corporation territory the contribution of Trans-Canada Pipe Lines Limited to the total natural gas requirements of the area is minor and is expected to remain fixed during the forecast period. It was therefore not considered necessary, for the purposes of this study, to make a forecast of the total requirements of the Saskatchewan Power Corporation market area. As shown by Exhibit 7, the maximum-day sales by Trans-Canada to Saskatchewan Power will be 20,000 Mcf in 1957-58, reducing to 10,000 Mcf during each year of the forecast period after 1957-1958, in accordance with the terms of the present contract. On Exhibit 6 the corresponding annual sales have been estimated at a load factor of 60% for the year 1957-1958, 90% for the year 1958-1959 and 100% for the following years.

Trans-Canada will also not be the sole supplier of natural gas to Union Gas Company which company has substantial sources of local gas supply in Ontario and in addition has a contract for the

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import of substantial volumes from the United States which still has several years to run. The sales by Trans-Canada to Union Gas however, will be much larger than those to Saskatchewan Power but will not constitute a large enough part of the total requirements to necessitate a detailed projection of total natural gas requirements in the Union Gas territory in order to reasonably estimate Union's requirements for natural gas from Trans-Canada. Accordingly, we have estimated such requirements in this report on the basis of the contract volumes set forth in the contract between the two companies, and advice from Union as to what proportion of such contract volume they would probably take from Trans-Canada in future years.

There is a substantial potential natural gas market in the Province of Quebec, between the cities of Montreal and Quebec City. This market could be served by an extension of Trans-Canada's pipeline system to the City of Quebec. Such an extension seems probable within the forecast period, and has been given active consideration by Trans-Canada, but, since it is not a certainty at the present time, no recognition has been given to these potential markets in this study.

Since the other Canadian markets along Trans-Canada's pipeline system will receive their total natural gas requirements from Trans-Canada,

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they have been projected in a group for the years from 1962-1963 to 1987-1988. This projection was based on observed trends in population and number of dwelling units in the market areas involved, and by the use of relevant factors to convert the numbers of dwelling units into numbers of residential customers and to translate the numbers of residential customers into maximum-day and annual gas requirements. The factors used were based on the detailed estimates for the six years from 1957-1958 to 1962-1963 inclusive which have been previously mentioned, and on the experience of natural gas companies in the United States as their natural gas markets have developed and matured. Since the basic projection is that of population, it seems appropriate to discuss first the methods used in making this projection, and to follow this explanation with a step-by-step discussion of the process of developing this population projection into a projection of maximum-day and annual gas requirements.

II. Population and Dwelling Units: Exhibit 3 is a projection of the population and corresponding dwelling units in the market areas to be served by Trans-Canada, other than the Saskatchewan Power markets, the Union Gas markets and market areas along the Montreal-Quebec extension. This is the

market area that was grouped for purposes of projection, as noted above. The population projection was based on a forecast by the Gordon Commission in its preliminary report dated December, 1956, for the Dominion as a whole, is modified to reflect an observed higher rate of growth in the market areas considered, as shown on Exhibit 1. The observed difference in the rate of growth in the market areas considered as compared to the Dominion as a whole was 0.627% per year, for the years 1951-1956.

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Referring to Exhibit 1, I would like to point out that the population of the total market areas of Trans-Canada, exclusive of Saskatchewan but including the Montreal-Quebec extension markets and the Union Gas markets, increased from 5,917,621 to 6,996,208 in 1956, an average annual rate of growth of 3.404 per cent.

Excluding the Montreal-Quebec extension but still including the Union Gas markets, the population of those markets increased from 5,403,841 in 1951 to 6,369,812 in 1956, for an average rate of growth of 3.427 per cent.

During that same period from 1951 to 1956, as may be noted from Exhibit 1, the total population of the Dominion of Canada had an average annual rate of growth of 2.8 per cent.

The excess of the Trans-Canada market rate of growth over that of the Dominion of Canada as a whole gained 6.27 per cent.

A projection of the annual rate of growth, reflecting these considerations, is shown in the third column in Exhibit 3. In making the related projection of residential dwelling units the factor in the column in Exhibit 3 headed "Ratio To Population" was trended from the ratios observed in 1951, 1956 and prior years. This ratio, as projected, shows a slow decline from year to year during the forecast period. The projection of total dwelling

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units was obtained by multiplying, year by year, the projected population by the ratios shown.

Referring to Exhibit 3, I would like to note that the population and the number of dwelling units and the annual rate of growth shown in the years 1931 through 1956 compared with the actual figure issued by the Dominion Bureau of Statistics since this data for the markets reflected in the tabulation as shown on that exhibit, it is projected that the population of the market areas reflected on this tabulation would increase from 5,086,560 in 1956 to 5,911,044 in 1961, to 6,819,430 in 1966, to 8,966,498 in 1976, to 12,437,219 in 1988.

As also shown on the exhibit, it is estimated that the number of residential dwelling units in the areas given increased from 1,377,599 actual in 1956 to 1,539,334 in 1961, to 1,799,322 in 1966, to 2,429,945 in 1976 and to 3,483,815 in 1988.

For comparison purposes only a similar projection of population and dwelling units for the present and potential market areas of Trans-Canada, including the Union Gas Company area and the market areas along the Montreal-Quebec extension, is shown in Exhibit 2. In both Exhibit 2 and Exhibit 3 the Saskatchewan Power Corporation market areas have been excluded in view of the low proportion of the total gas requirements in this area to be supplied by Trans-Canada.

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As shown on Exhibit 2, it is estimated that the population in areas included in the tabulation will increase from an actual of 6,996,208 in 1956 to 16,789,715 in 1988 and that the number of residential dwelling units in the areas will increase from 1,826,686 in 1956 to 4,783,394. Residential Requirements: The derivation of residential maximum-day and annual gas requirements from this population projection is shown on Exhibit 8. As previously explained, the projections for the years 1957-58 to 1962-63 are not based on trends but are made from detailed estimates of these markets based on actual field investigations. These detailed short-term projections are used to develop the basic factors shown in columns 2, 4, 6 and 8 of Exhibit 8, which are then projected into the future on the basis of the observed trend, modified by industry experience as to the ultimate level to be reached by these several factors and ratios. The mathematical operations performed on Exhibit 8 to derive the maximum-day and annual residential gas sales requirements are indicated immediately under the column headings. It will be seen that a total residential customer projection is the first step, followed by a projection of residential heating customers. Appropriate factors reflecting the use per customer for general use and heating use are

then applied to the respective numbers of customers



to arrive at annual residential gas sales requirements. The maximum-day residential gas sales requirements are then derived from the annual requirements by the use of assumed load factors which are set forth at the head of columns 11 and 12. The load factors are based on industry experience and are typical of residential general and heating use.

Commercial and Small Industrial Requirements: A projection of annual and maximum-day commercial and small industrial gas sales requirements is similarly computed, and is shown on Exhibit 9. In this case the number of commercial customers shown in column 3 is derived from the previously estimated total number of residential customers shown in column 1. It is the experience of the natural gas industry that a reasonably constant relationship may be expected between the number of residential gas customers and the number of commercial gas customers. This ratio is shown in column 2 of Exhibit 9, as estimated by the detailed procedures previously described for the years 1960-61 to 1962-63, and trended into the following years. Since the early development of natural gas markets tends to be more in the residential than the commercial classification, this ratio is inclined to be small in the early years and has been increased to the commonly encountered value of 6.25% in the

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year 1968-69 and following years. These percentages are used to project the total number of commercial customers shown in column 3. By a similar process to that described in connection with the residential projection, the commercial heating customers are then estimated, and, by the use of appropriate factors for use per customer, a projection of maximum day and annual commercial gas sales requirements is derived.

Summary of Canadian Maximum-Day Requirements: A summary of the projected maximum-day gas sales by Trans-Canada to the Canadian markets is shown on Exhibit 7. As previously explained, the markets other than Saskatchewan Power Corporation and Union Gas Company are projected on a consolidated basis, and are then added to the Saskatchewan Power Corporation projection and the Union Gas Company projection to arrive at a total Canadian maximum-day sales by Trans-Canada. In the consolidated estimate of markets other than Saskatchewan Power and Union the residential sales and commercial sales shown on Exhibit 7 are carried forward from Exhibits 8 and 9, previously described. The firm industrial sales are projected on Exhibit 7 on the basis of trends derived from the detailed short-range for the years 1957-58 to 1962-63. A study of the detailed short-range projections of firm industrial sales indicates that sales to present industrial

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customers may be expected to increase at the rate of 5% per year. In addition to the anticipated increase in requirements of the presently connected customers, it has been assumed that new industries will be connected to the natural gas lines to the extent of 25,000 Mcf of maximum-day requirements every two years. The use of these assumptions results in the projection of firm industrial sales shown on Exhibit 7. The residential, commercial and firm industrial sales are then totalled, and an allowance is made for distribution company use and losses amounting to 5% of the total requirements.

It has been assumed on Exhibit 7 that the maximum-day requirements will be met to the extent of 30% by peak shaving in the year 1966-67 and following years and the maximum-day peak-shaving volumes have been trended up to this amount from zero in 1957-58. These volumes of peak-shaving gas are shown in the column headed "Less Peak-Shaving Gas" on Exhibit 7. The following column shows the expected contribution to the maximum-day requirements of gas from The Consumers' Gas Company storage fields. These two amounts are deducted from the total maximum-day gas requirements to arrive at the total maximum-day gas requirements from Trans-Canada for the Canadian markets. These latter amounts are shown in the column headed "Total Requirements From T.C.P.L.". The addition of the

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maximum-day gas sales requirements of Saskatchewan Power Corporation and Union Gas Company result in the total Canadian maximum-day sales by Trans-Canada shown in the right-hand column on this exhibit.

The projection of Union Gas Company requirements from Trans-Canada is shown in Exhibit 10. Under Trans-Canada's contract with Union Gas Company deliveries to Union may be interrupted at any time by Trans-Canada. However, Trans-Canada is obliged to deliver certain minimum annual and winter period (November 1 to March 31) volumes and Union is obliged to take at least 75% of these volumes. The total contract annual and winter period volumes are shown on Exhibit 10, as are the percentages of these volumes which Union estimates it will take. For the years 1968-69 and following, the annual and winter period contract volumes remain at 64,000 MMcf and 21,300 MMcf respectively. Union estimates that its annual requirements will increase by 3,500 MMcf per year during this period and it has been assumed that the contract will be amended to provide for these increased deliveries.

VI. Summary of Canadian Annual Requirements:

Exhibit 6 is a summary of the projected annual gas sales by Trans-Canada to the Canadian market. The residential sales and commercial sales shown on this exhibit are transferred from Exhibits 8 and 9,

respectively. The industrial sales projection is in two parts, firm and interruptible. The projection of firm annual industrial sales is derived from the projection of industrial firm maximum day sales on Exhibit 7, previously described. In making this annual computation a load factor of 70% for firm industrial sales has been assumed, based on industry experience. The interruptible industrial sales have been projected in a similar manner and using assumptions similar to those used in projecting the industrial firm sales as previously described. That is to say, a 5% annual growth in present customers' requirements has been assumed, and an allowance has been made for new customers in a manner and amount similar to that described for the firm industrial sales. In the case of annual interruptible sales, however, the volumes projected as above described have been limited in some years by the requirement that the overall pipeline annual load factor probably will not materially exceed 95%. It has been found in practice in the natural gas pipeline industry that the practical limitations on load dispatching usually preclude the attainment of a load factor much higher than 95%. This limitation has therefore reduced the annual volumes of interruptible sales which would otherwise be estimated in the years 1958-59 to 1960-61 and 1978-79 to 1987-88. In the

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other years, the full interruptible potential has been included and no provision has been made for curtailment. In this connection, it is noted that, as can be computed from Exhibit 4, the pipeline annual sales load factor dropped to 87.5% to 90% in the years 1962-63 through 1964-65, notwithstanding the fact that the full estimated interruptible potential load was included and reflected in the estimated annual sales shown for those years. Had it been assumed in the studies that Trans-Canada's interruptible agreement with Tennessee Gas Transmission Company at Niagara Falls had been operative in those years, the pipeline annual sales load factor in such years would have easily been raised to 95% or above. Under such interruptible agreement, Tennessee agrees to take any volumes of excess gas which Trans-Canada may have from time to time above the requirements of its Canadian markets, up to 200,000 Mcf per day.

The total annual sales of Trans-Canada, as projected in the manner described above, are shown on Exhibit 6 under the column headed "Total Sales MMcf." The next column shows the distributing company use and losses, computed at 5%. The column headed "Less Peak-Shaving Gas" in Exhibit 6 shows the annual volumes of peak-shaving gas corresponding to the maximum-day volumes of peak-shaving gas shown on Exhibit 7. The amounts shown

under the heading "Plus Net Gas Input To Storage

MMcf" represent volumes required by Consumers' Gas

Company to complete the filling of its underground

gas storage field. The consolidated annual gas

sales requirements shown are then added to the sales

to Saskatchewan Power and Union to arrive at the

total Canadian annual sales by Trans-Canada, shown,

in the right-hand column of this exhibit.

Summary of Total Canadian And Export Requirements: The Canadian maximum-day and annual requirements, projected as described above, are carried forward to Exhibit 4, and are there added to the annual and maximum-day requirements for export at Emerson, Manitoba. The total sales requirements thus derived are increased by 10% to reflect Trans-Canada's requirements for compressor station fuel and for pipeline losses, to arrive at the total annual and maximum-day requirements shown. The total annual Trans-Canada requirements are accumulated in the column headed "TCPL Total Requirements Cumulative." The figures in this column show the cumulative total production of Canadian gas reserves which will be required to meet the requirements as projected herein.

Referring to Exhibit 4, it is to be noted, as estimated in this report, Trans-Canada's requirements for Canadian sales will increase from 22,545 MMcf in the year 1957-58, which is a partial year's

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operation, to 255,106 MMcf at the end of the first five full years of operation in 1962-63; will further increase during the next 5-year period to 409,986 MMcf and will have increased, by the year 1987-88 to 1,210,760 MMcf, these being annual requirements for Canadian sales.

The requirements for the U.S. export at Emerson annually were shown on the exhibit, increasing from 69,136 MMcf to approximately 73,343 MMcf and levelling off during the rest of the period shown through the forecast, representing approximately 99% of the contract maximum-day of 204,000 MMcf.

Adding these sales requirements all together, those of the Canadian markets and the United States export market, and to the total of those sales adding Trans-Canada's fuel and loss requirements, Trans-Canada's total requirements annually increased from 24,800 MMcf in 1957-58 to 360,565 MMcf in 1962-63, the end of the first five full years of operation, to 531,662 MMcf at the end of the tenth year of operation and to 1,412,513 MMcf by the year 1987-88.

Likewise, Exhibit 4 shows the increase in Trans-Canada's maximum-day requirements, the Canadian sales maximum-day requirements as an increase from 86,661 Mcf in the first partial year of 1957-58, to 782,661 Mcf at the end of the first

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five full years of operation in 1962-63 and, by the year 1987-88 it is expected to reach 3,496,585 Mcf, those being the maximum-day requirements for Canadian sales, including the export of 204,000 Mcf at Emerson and Trans-Canada's fuel and losses, as shown in the last column of Exhibit 4. VIII. Estimated Sales to Canadian Distribution Company Customers: Exhibit 5 shows the estimated annual and maximum-day sales of Trans-Canada to its various proposed Canadian distribution company customers and to Midwestern Gas Transmission at Emerson through the first five full years of operations of 1962-63. Such estimated sales are based on the detailed field studies referred to above. As shown on the exhibit, a substantial portion of Trans-Canada's initially proposed sales in Canada have now been contracted for.

MR. COATES: I am sure that you will agree that this study, particularly the long-term market projection, clearly reflects the magnitude of Trans-Canada's future Canadian market.

As to present and future export markets available to Trans-Canada, the report covers the whole market, present and future, in the midwestern States of Minnesota, Wisconsin and Illinois, and in the east, New York State, (exclusive of New York City) and New England. In addition, projections have been included for the States of Montana and

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North Dakota for your information although Trans-Canada does not contemplate any service in that area except to the extent that the proposed Midwestern project would serve some communities near the eastern boundary of North Dakota.

Trans-Canada is contemplating entering only those
U.S. markets covered by its existing contracts with
Midwestern Gas Transmission Company and Tennessee
Gas Transmission Company; namely, the 200 million
cubic feet per day sale at Emerson, Manitoba, and
the interruptible sale at Niagara to Tennessee Gas
Transmission Company. Beyond these present contractual arrangements, Trans-Canada has no active
plan for future U.S. markets.

In connection with Trans-Canada's proposed export at these two points, it is important to observe that each has its advantage to the Trans-Canada system. The Emerson sale would enable Trans-Canada to make the maximum use of the capacity it has or can readily attain in the Western section of its pipeline.

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As discussed by Mr. Tippy earlier, this has many resulting advantages. Among these is the fact that the Emerson sale will materially improve Trans-Canada's revenues in the early years, thereby enabling the Company to fulfill its obligation to purchase the Crown Section at a date earlier than would otherwise be possible. This obligation is not the only reason why an early purchase is important. The result of the rental provision in the Crown Section lease is, that as the Crown Section's throughput rises above 300 million cubic feet per day, the monthly rental increases to the point where it may impair Trans-Canada's ability to adequately and economically meet the steadily increasing requirements of its Eastern Canadian market.

The proposed export at Niagara is advantageous because of its wholly interruptible feature. Under that agreement the purchaser has agreed to purchase any quantity up to 200 million cubic feet per day which Trans-Canada may have available after meeting all of its Canadian markets, but Trans-Canada is not obligated to deliver any quantity at any time. This type of sale obviously assists Trans-Canada in operating at as high a load factor as is possible. For example, a system load factor of approximately 87 1/2 per cent (Market study, 1963-64) could be increased to above 95 per

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cent by the use of this interruptible sale.

The study referred to there is just what Mr. Orme has been reading from as recently prepared.

We should point out that this proposed sale at Niagara is conditioned upon the commence-ment of the Emerson sale.

Competitive and Other Factors: With respect to the subjects of product pricing, market penetration economics, and competitive factors, we asked Commonwealth Services Inc. to discuss these matters insofar as they pertain to the marketing of natural gas. In the same discussion from which Mr. Tippy has read, he has covered these subjects under the headings "Competitive Factors in the Gas Industry" and "Economics of Distributing Natural Gas", commencing at pages 1 and 9 respectively. He has also, at our request, pointed out some of the inherent differences between the transportation of gas and oil on page 29. We commend these discussions to your attention and do not propose to summarize or read them.

General: In presenting to you some of the facts and fundamental principles pertaining to natural gas transmission and marketing we have, we believe, given to you a complete picture of Trans-Canada's project. The initial Trans-Canada system is well on its way to completion, is presently

serving a portion of the Canadian market and will, this coming fall, be in full operation.

We are greatly encouraged by the fact that the Canadian market is developing far more rapidly than was generally recognized a year ago. It is common knowledge that in the earlier days of the Trans-Canada project it was generally believed that a market in addition to the potential Canadian market was vital to the success and launching and subsequent operation of the project. The system was accordingly designed to serve not only Canada but a portion of the market in the midwestern United States. Permits were granted by the Alberta Conservation Board and by the Transport Board upon that basis. The pipe laid in the Western Section was sized for that purpose.

While we do not contend that the survival of the Trans-Canada project is dependent on either the export at Emerson or the interruptible sale at Niagara, we do contend that those sales will contribute very materially to the operating success of the system. The early connection of these loads will assure a high capacity factor and a high load factor, benefitting both producer and consumer. It will also assure the early financial maturity required to purchase the Crown Section, thereby discharging that obligation prior to the rental arrangement becoming uneconomic.

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Clearly, the primary function of Trans-Canada is service to Canadian markets. We sincerely believe that our plans, as we have outlined them to you, will accomplish that service in the most efficient manner, and provide optimum benefits to consumer and producer alike.

All of which is respectfully submitted.

THE CHAIRMAN: Thank you very much, Mr.

Coates.

How does counsel wish to proceed from here, Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, I would suggest that we now ask all of the witnesses of Trans-Canada to be sworn, and, having accomplished that, then I propose to take up, first, the financial phase of the matter. I don't think I would have taken it quite in that way, but would have dealt with the operational side, but I understand Mr. Coates has a personal problem and it would assist him if I dealt with that in the early stages, and accordingly I do that.

MR. COATES: Thank you, sir.

MR. PATTILLO: Mr. Registrar, would you bring the Book over, together with the form of oath, and I think, Mr. McNeill, if you sing out the Christian names and then the Registrar can repeat that and you can give that oath.

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---Whereupon the following witnesses were sworn:

Charles S. Coates
H. Dix Fowler
Robert Charles Berry
A. Deane Nesbitt
Paul F. Clarke
Gladstone Stewart, Jr.
Nathan Eldon Tanner
Verne L. Horte
Ralph S. Orme
William B. Tippy

MR. PATTILLO: I think, Mr. McNeill, that probably the witnesses I shall need on this phase of the inquiry will be Mr. Coates, Mr. Tanner, Mr. Nesbitt and Mr. Clarke.

MR. McNEILL: Mr. Berry?

 $$\operatorname{\mathtt{MR}}$.$ PATTILLO: Yes, and probably Mr. Berry, too, if they would please move up.

Gentlemen, in order to expedite matters I will direct the question to Mr. Coates as president of the company, and you can either answer it yourself, Mr. Coates, or you can direct the question to whomever you wish to, but in order that we have it clear on the record, would the name be mentioned so it will appear who is answering the question?

MR. McNEILL: Yes.

MR. PATTILLO: Now, I would like to first try and deal with the situation up to December 31, 1956, and then after that we will deal with the situation since December 31st, 1956.

Q. When was Trans-Canada incorporated?



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MR. McNEILL: Perhaps I can answer that.

It is Chapter 92 of the Statutes of Canada, 1951.

It came into force on the 21st of March, 1951.

- Q. And at that time what was its proposed share capital?
- MR. McNEILL: At that time, according to Section 3 of the Act, the capital stock of the company was -- well, "shall consist of 5 million shares with a par value of \$1.00 per share".
- Q. Now, who were the original organizers of the company?

MR. McNEILL: Clinton Williams Murchison, oil and gas executive, Frank August Schultz, oil and gas executive, both of the City of Dallas in the State of Texas, one of the United States of America. John Ross Tolmie, barrister and solicitor; John McCreary Coyne, barrister and solicitor and Ross Garstang Gray, barrister and solicitor of the City of Ottawa in the Province of Ontario.

Q. There is another company I want to find out a bit about, Western Pipelines Limited.

Could you tell us when that company was incorporated?

MR. McNEILL: It was incorporated by Chapter 38, Statutes of Canada, 1949.

Q. And what was the proposed share capital of that company?

MR. McNEILL: I will have to find that

for you. I have not got it readily at hand.

Q. Could you tell me who were the organizers of that company?

MR. McNEILL: Again, I cannot give you that offhand.

Q. In January, 1954, am I correct in thinking that a merger of these two companies was brought about?

MR. McNEILL: It was effected, sir, in March, April and May of 1954.

Q. In March ---

MR. McNEILL: March, April and May; it was spread over a period of time, the actual conclusion of the merger.

Q. Well, immediately before the merger was brought about, how many shares of capital stock of Trans-Canada had been issued?

MR. COATES: Mr. Berry will answer that.

Q. Will you come up to the microphone, Mr. Berry?

MR. BERRY: Prior to July of 1954, 1,000 shares of the stock of Trans-Canada had been issued.

Q. At what consideration?

MR. BERRY: \$1.00 per share.

Q. At that time did the company have any assets?

MR. BERRY: No, sir.

Q. Did it have any liabilities?

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MR. BERRY: Not that I am aware of.

Q. Now, can you tell us at that time

-- well, just carrying on: the shares that you have
told us had been issued at \$1.00 a share, can you
tell us to whom they were issued?

MR. BERRY: 7 shares were issued to the original incorporters and 993 shares were issued to Canadian Delhi. I believe the full name of that company at that time would have been Canadian Delhi Oil Limited.

- Q. Where was that company's head office?
 MR. BERRY: In Calgary, Alberta.
- Q. And do you know whether that company was a wholly-owned subsidiary of any other company, or whether it had share control in the hands of the public?

MR. BERRY: I am not aware, in detail, of the position at that time. However, I understand today that that company has a substantial number of shares in the hands of the public. I believe that Mr. Nesbitt has some information further to what I have just said.

Q. Mr. Nesbitt, would you tell us?

MR. NESBITT: Yes. My records show that

Canadian Delhi had 127,000 shares held by Canadian

residents in October, 1954, and in November, 1957,

960,000 shares held by Canadian residents.

Q. And who had the control of Canadian

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Delhi? Do you know from your records, as of July, 1954?

MR. NESBITT: No, sir, I do not, except from hearsay. I believe that no one, no individual held 50 per cent of the stock. I believe that more than 50 per cent was in the hands of the public, but that is hearsay information.

MR. BERRY: Might I add, I think we have to establish a firm cut-off here. Mr. McNeill mentioned the merger took place over a period of three months, so any comments in July -- I think it is fair to add at this point that as of July 31, 1954, a further 1,002 shares were issued at a price of \$1.00 per share.

Q. Who were they issued to? We are talk-ing of Trans-Canada.

MR. BERRY: We are talking of Trans-Canada Pipe Lines Limited and this is part of the merger picture: one of the two shares was issued to Canadian Delhi and a total of 100l shares were issued to a group popularly known as the Western group or Western Syndicate. I believe Mr. Nesbitt can give you more details as to who they are.

Q. I just want to get this clear. Was the purpose, Mr. Nesbitt, of issuing this additional 1000 shares on July 31st to balance the previous 1,000 that had been issued so that the Delhi or original group of shareholders in Trans-Canada had

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50 per cent, and the Western group had the other 50?

MR. NESBITT: That is correct. This issue of stock was made to implement the agreement which had been arrived at between the Western group and the original Trans-Canada group to go forward on a fifty-fifty basis.

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Q. At that time, do you know whether or not Trans-Canada as of July 1st had any liabilities to the Canadian Delhi group? Had they been advancing moneys on its behalf at all up to that time?

MR. BERRY: I am afraid I am not in a position to answer that. I should explain I came to Trans-Canada in October, 1956, so I was not with the organization at that time. I do know that subsequent to July, 1954, additional shares of Trans-Canada were issued in return for preliminary organization expenses and other expenses relating to Trans-Canada which, I assumed, prior to that time had been borne by Canadian Delhi and Western group and the shares in respect of those expenses were issued subsequent to July, 1954.

Q. I want to get a starting point where we can get started: as of July 31, as I understand it, there were more than 2,000 shares issued and outstanding; the par value of a dollar had been paid for each of them but you have no record to show what the liabilities of Trans-Canada were to anybody at that stage?

MR. BERRY: I do not have that with me but I would be delighted to get that information for you.

Q. If you will get that information.

Now, you were going to add something there, Mr.

Nesbitt.

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MR. NESBITT: I do not have the figures with me, sir, but I was about to say, I believe, those preliminary engineering legal and accounting expenses of the Trans-Canada group had been carried by the Delhi group and the preliminary engineering and accounting and legal expenses of the Western group had been borne by the Western group. Those figures, I know, are available in the company's offices and the reason they probably were not issued at this time was that each group agreed to audit the other one's figures when we joined forces and the shares were subsequently issued to each at \$8 a share for those expenses.

Q. That is fine. We understand, as of July 31, Trans-Canada had no shares but did the Western company have any assets? It had built a pipe line, had it not, in Ontario?

MR. NESBITT: Not until after that.

Those assets consisted of its engineering studies and, I think, its liabilities were a bigger figure.

MR. COATES: I might add, the section of pipe line you understood it had built in Ontario was in August, September and the early part of October, 1944.

Q. Now, still dealing with the picture starting out around the end of July, you told us about these additional shares being issued and Mr. Nesbitt says they were issued at a value of \$8.

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How many shares were issued to each group?

MR. BERRY: Are we confining this to the year 1954, for the moment?

Q. Yes, I do not want to go beyond the year 1954.

MR. BERRY: As of December 1, 1954, there were a total number of shares outstanding, 670,592 shares, all of which, with the exception of the initial 1,002 shares, were issued at a price of \$8 per share and that difference would amount ... to 668,590 shares. There was issued to Canadian Delhi a total of 390,214.

Q. And how many of those were for cash and how many to reimburse them for expenditures?

MR. BERRY: Of that total 215,088 shares were in reimbursement of expenses and the remainder would be in respect of cash advances. To the Western syndicate a total of 275,376 shares of which a total of 97,250 shares were in reimbursement of expenses and the remainder were for cash.

Q. Now, were these shares -- when you mention the Canadian Delhi block of shares, was that issued directly to the company or were some of them issued to the company's nominees?

MR. BERRY: If you will just bear with us for a moment, I think we might have the detail on that.

THE CHAIRMAN: Gentlemen, I think we might

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en. 1940 - Alberta Berlin, de la companya de la company have a ten-minute recess at this point.

MR. McNEILL: Mr. Chairman, may I point out that Mr. Pattillo asked concerning capitalization of Trans-Canada and I gave him that in the original incorporating Act and there was an amending Act in May, 1954, which increased the capital to 10,000,000 common shares with a par value of \$1 and made provision for 1,000,000 preferred shares par value of \$50. That is a statute.

- Q. That is still the corporate structure?

 MR. McNEILL: That is right.
- Q. So far as the shares are concerned?

 MR. McNEILL: Yes.

THE CHAIRMAN: Just to sum this up: the capital structure of Trans-Canada is 10,000,000 common shares par value \$1 and 1,000,000 preferred shares par value of \$50 each.

MR. McNEILL: That is right. That is the authorized capitalization.

THE CHAIRMAN: Yes.

Gentlemen, I think we will now have a tenminute break.

---Short recess.

THE CHAIRMAN: We will resume the hearing.
Mr. Pattillo?

MR. PATTILLO: I will ask the reporter to read back the last question before the recess.

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REPORTER (reads): "When you mention "the Canadian Delhi block of shares, was that "issued directly to the company or were some "of them issued to the company's nominees?"

Q. Yes.

MR. BERRY: I have the shareholders' ledger here, Mr. Pattillo, which indicates the shares which I mentioned amounting to 393,214 were issued in the name of Canadian Delhi Oil Limited, Calgary, Alberta, and that, concurrently, a total of 158,919 shares were transferred into the name of the Montreal Trust Company these shares being in connection with an option from Canadian Delhi to members of the Western group in order to equalize their holdings at that time.

Q. I have just been mentioning the Western group up to now. Can you tell me who the members of the Western group were as of the end of July, 1954?

MR. NESBITT: I shall have to do it

from memory: Anglo Canadian Oil Company, Limited;
Osler, Hammond & Nanton Limited; Nesbitt, Thomson
& Company Limited; Wood, Gundy & Company Limited;
International Utilities; Calgary and Edmonton
Corporation Limited. To the best of my knowledge,
I believe that is the group, sir.

Q. That is the group that are listed in the document that was executed in March of that

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to seed atomic to the SNN in the



year where they are referred to as the Western group. Now, shares that were issued to the Western group, at that time, in whose name were they registered; were they registered in the name of any nominees or just in the names of the companies just mentioned by Mr. Nesbitt?

MR. BERRY: Referring, again, to the shareholders' ledger of the company, which indicates that the shares, in addition to the 58,919, which I have previously mentioned, were registered in the name of Montreal Trust Company, Winnipeg, Manitoba.

Q. So that all of the shares that the Western group might be entitled to or which they had under option were registered in the name of Montreal Trust?

MR. BERRY: That is correct.

Q. Immediately before this situation which we have been dealing with here, who was the principal officer of Trans-Canada Pipe Lines
Limited? That is, before Mr. Tanner came into the picture?

MR. BERRY: That would be Mr. C. W. Murchison.

Q. Mr. Murchison, the gentleman from Houston?

MR. BERRY: Dallas.

Q. Who was the principal officer of the

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Western Company?

MR. NESBITT: He was a senior officer of Osler, Hammond & Nanton; he is since deceased and I cannot think of his name at the moment, sir. -Mr. Baxter.

- Q. Is that Mr. Lionel Baxter?
 MR. NESBITT: Yes, sir.
- Q. As a result of this merger, who became the principal officer of Trans-Canada Pipe Lines Limited?

MR. NESBITT: Mr. Eldon Tanner.

Q. And when did Mr. Tanner become the principal officer of Trans-Canada?

MR. NESBITT: Well --- (pause).

MR. TANNER: May I answer that -- March 9, 1954.

Q. And prior to that time had you, Mr. Tanner, had anything to do with any one of these groups as an officer of Trans-Canada or the Western Company?

MR. TANNER: Yes, when I was Minister of Mines in the Government when they were talking about permits and in hearings before the Conservation Board and so on I got very well acquainted with both of them.

Q. But you were not an officer or director of either group?

MR. TANNER: No.

. . .

Q. Would you explain to us, Mr. Tanner, how it came about you joined the corporation at this time?

MR. TANNER: In February, 1954, representatives of both companies came to my office, I was then president of Merrill Petroleums, and approached me to -- asked me if I would accept the position as president of the amalgamated company, then Trans-Canada Pipe Lines Limited. After a few days of consideration we worked out an arrangement whereby I agreed to accept that position.

Q. Just before I develop that further with you, Mr. Tanner, you have told us, Mr. Nesbitt, about this price of \$8 per share that came into being in 1954. How was that price arrived at?

MR. NESBITT: We were, sir, thinking of the ultimate public financing and we considered that our investment should be made at or close to the price at which we would subsequently offer shares to the general public. We felt that a share at around \$10 would have a broader appeal to the public than one of a higher cost and, consequently, we selected a price in the area that we thought would make a suitable vehicle and be attractive for public financing.

Q. Do I understand you to say, Mr.

Nesbitt, that as early as the year 1954 when you were

looking ahead to public financing you had in mind

general will all a transfer to the

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that you would issue common shares at \$10?

MR. NESBITT: We hoped to get \$10 for them, sir. We felt that it would be in that area; that if the market was suitable we did hope to get \$10.

Q. And it was from the premise you arrived at the price of \$8 that was used for the cash advance being put up by the companies and the promoters at that stage?

MR. NESBITT: That is right, sir.

Q. Now, Mr. Tanner, going back to this meeting they had with you in February of 1954, as a result of that meeting you, subsequently, entered into a written agreement with the company providing for your appointment as the chief executive officer of the company and providing for salary and other matters?

MR. TANNER: Yes.

- Q. I have, in the bundle of papers delivered to me by the company at my request, a document headed "Contracts other than gas sales contracts" which, Mr. Chairman, I would ask to be marked as Exhibit C-19-6.
- ---EXHIBIT NO. C-19-6: Contracts other than gas sales contracts.
- Q. This is a copy of a document dated the 9th of March, 1954, and made between Trans-Canada

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Pipe Lines on the one part, Nathan Eldon Tanner of the City of Calgary of the second part, Canadian Delhi Petroleums Limited of the third part and Calgary and Edmonton Corporation Limited,
Anglo Canadian Oil Company Limited, Osler, Hammond & Nanton Limited, International Utilities Corporation, Wood, Gundy & Company Limited and Nesbitt,
Thomson & Company Limited, known as the Western group of the fourth part.

Now, Mr. Tanner, on page 2 of this document, paragraph 2 and paragraph 1 provides for you to become the chief executive officer for a period of five years from the 9th day of March, 1954.

MR. TANNER: Yes.

Q. And then provides, in paragraph 4, for your salary of \$35,000 per annum and provides for a retirement allowance in paragraph 5 upon the expiration of that period of five years unless you both agree that the contract should be extended?

MR. TANNER: Yes.

Q. The time allowance was at the rate of \$15,000 per year for a further five years?

MR. TANNER: Yes.

Q. Paragraph 6 provides for the guarantee by Delhi of one-half of the salary and

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retirement allowance and the joint and several guarantee of the Western group of the other one-half. Was that guarantee put in there at your request, Mr. Tanner?

MR. TANNER: Yes.

Q. And will you tell us why?

MR. TANNER: The companies, at that time, had just experienced the going to the Conservation Board and the different approaches they had made and had not, at that time, bought any gas, they were not an operating company, as such, and the two companies were amalgamating under the name of Trans-Canada Pipe Lines and to be prepared to accept that position I felt I should have some guarantee by these responsible companies that if the company did not prove to be successful that I would have some remuneration for having left the position I then held.

Q. In paragraph 7 of the agreement it provides that the company grants you an irrevocable option for a period of five years to purchase 60,000 ordinary shares of the capital stock of the company at a price of \$8 per share. Would you tell us at whose -- was it at your request you be given an option to acquire shares?

MR. TANNER: Yes.

Q. Was the quantum your idea or the idea of the people who had approached you and asked

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you to take the position?

MR. TANNER: I think I would have to take the responsibility for that.

Q. And the price was the then price that had been fixed, as Mr. Nesbitt explained?

MR. TANNER: Yes.

Q. Now, during the year 1954, did you exercise any part of that option for any of the shares?

MR. TANNER: No, I did not.

Q. I do not want to get out of my chronology but, nevertheless, because of the Mr. Coates' situation, I think I will have to on these options. When did you first exercise any right under that clause 7?

MR. TANNER: February of 1957.

Q. What date in February?

MR. TANNER: February 4th, and that is when I first exercised the option for any of these shares.

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Q. And was it for a part or all?

MR. TANNER: For 15,000 shares.

Q. For 15,000 shares?

MR. TANNER: Yes.

Q. Since that date, have you exercised your rights under this clause for any other additional shares?

MR. TANNER: Yes, I exercised my option for 40,000 additional shares in the same month. I think it was February 6th.

- Q. That gets us up to 55,000 shares?

 MR. TANNER: That is right.
- Q. Did you exercise your option for the final 5?

MR. TANNER: No, I have not.

- Q. They still remain outstanding?
 MR. TANNER: Yes.
- Q. Now, under Clause 9 of the agreement:

 "The executive -- " -- that is yourself -
 "-- agrees that he will not during the

 "period of 30 months from the date hereof

 "offer or cause to be offered for sale

 "any shares of the capital stock of the

 "company acquired by him under the terms

 "of this option at any time when the com
 "pany is engaged either directly or

 "through an underwriter or underwriters

 "in sale and distribution of shares and/or

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"securities to the public and for a

"period of 30 days after such distri"bution and sale shall have been com"pleted or terminated."

Now, did that clause relate to the shares which you exercised under your option when, in fact, you did exercise the option?

MR. TANNER: I think it related to all the option shares I acquired.

Q. And do you still own all the option shares?

MR. TANNER: No, I do not.

Q. How many of them do you have today?

MR. TANNER: I have 30,800 shares in my own name.

Q. 30,800. That would mean that you have disposed of 24,200 shares?

MR. TANNER: Yes.

Q. When did you dispose of those, Mr. Tanner, and at what price?

MR. TANNER: The 15,000 of those shares went to members of my family -- I cannot give you the date, but about the time I acquired them, at \$10 a share.

Q. Which members of the family and in what quantities?

MR. TANNER: Mrs. W.S. Jensen had 1,000 shares.

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- Q. Is that a daughter of yours?
- MR. TANNER: ' Yes, and Mrs. H.S. Rose.
- Q. Is that another daughter?

MR. TANNER: Those are daughters, and
Mrs. G.L. Spackman. Now, I can't say for sure that
they were issued in their names. I think one or
two were jointly, with their husbands.

Q. That is 1,000 each went to the three daughters?

MR. TANNER: Yes, and another to Mrs. L. Williams. I have five daughters.

Q. Right. You have five daughters and we now have four. Who is the fifth?

MR. TANNER: And 10,000 shares -- pardon me -- 1,000 shares to my secretary, Miss Livingstone, and 10,000 shares to C.R. Walker and his family.

I cannot tell you how they are divided, at the moment.

Q. And Mr. Walker is a son-in-law of yours?

MR. TANNER: Yes.

Q. That is the 15,000?

MR. TANNER: Yes, 9,000 was sold on the open market and 2,000 to the National Trust for other members of my family.

Q. Now, the 2,000 shares that went to the National Trust ---

MR. TANNER: 200; pardon me. Did I say 2,000? I'm sorry.

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Q. 200 went to National Trust. At what price did you transfer them?

MR. TANNER: At the price they were that day. I don't know. I just transferred them to the National Trust for them as a gift to them.

- Q. Can you give us the date you did that?

 MR. TANNER: I can't, at the moment, give
 the exact day. I can get that, if you wish it, but
 it was just a few months ago.
 - Q. If you would get that, please.

Now, the 9,000 you sold in the open market, rather than getting the various prices, because I assume they were sold at various times, can you give us the aggregate price that you received for them?

MR. TANNER: No, I'm sorry, I can't. I will get that for you.

Q. Thank you. Now, that deals with the 24,200 shares. Now, there are a couple of other questions I would like to ask you about this ---

MR. TANNER: Pardon me. I think, in my answering this question regarding those shares I disposed of, I said that I received \$10 a share for those that went to the first five people mentioned and \$8 per share that went to C.R. Walker and his family.

Q. Right.

Now, I want to call your attention to Clause 16:

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"The executive will give and grant "unto a representative or representa-"tives to be designated by Delhi a "proxy with respect to the full one-"half of any shares which he may "acquire under the option granted under "Clause 7 hereof during the period of "30 months from the date of this agree-"ment and the executive will give and "grant a proxy for the remainder of the "shares so acquired within the said "period to a representative or represen-"tatives to be designated by the Western "Group or by a majority of the members "thereof. Each proxy so granted shall be "irrevocable until the expiration of "30 months from the date of this agreement "or until the expiration of a period of "30 days from the date upon which the com-"pany shall have completed, either directly "or through an underwriter or underwriters, "the sale and distribution of shares and/ "or securities for the purpose of pro-"viding the funds required to finance the "construction, acquisition and operation "of its pipelines, properties, equipment "and facilities, whichever shall first "occur."

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Now, was there any necessity to operate under that clause and were the proxies given?

MR. TANNER: The proxies were not given and there was no necessity to operate under that clause, because there had been an entire change of the company set-up.

At the time this clause was written, if you would like me to explain it, the two companies, as mentioned by Mr. Nesbitt, had arranged so that each held exactly 50 per cent of the stock in the company, and this clause provided that if I did exercise my option for any of those shares they would receive the voting proxy each for half of the shares I exercised, but, at the time of the exercising of the option, the company set-up had changed entirely and this was not necessary.

Q. Right. Now, from the time you received the option in March of 1954 up to the time that you exercised, first, in February of 1957, did you remain at all times the sole owner of the option or did you at any time assign it or pledge it?

MR. TANNER: I remained the sole owner of all the shares. This matter of the 10,000 shares was an arrangement between Mr. Walker and myself, actually, at the time the option was granted me, and the company was aware of that.

Q. Now, my other question: did you pledge your right to take up the option at any time

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between the dates that I have mentioned?

What I have in mind, Mr. Tanner, is when arrangements were made with the Dominion Government.

MR. TANNER: Oh. Yes, at the time the arrangement was made with the Dominion Government where they agreed to lend us money for the construction of the western section, it was necessary for all the shares that were then outstanding and all the options to be pledged as security against that loan.

Q. And your option and the shares under it were pledged?

MR. TANNER: Yes.

Q. And that was released ---

MR. TANNER: After the financing.

THE CHAIRMAN: After the what?

MR. TANNER: At the time of the financing.

THE CHAIRMAN: Well, when the debt was

repaid?

MR. TANNER: That's right.

MR. PATTILLO: Q. And that was sometime early in 1957?

MR. TANNER: Yes, that was early in 1957.

I don't know the exact date.

Q. Well, I think ---

MR. TANNER: I am told here it was the 27th of February.

Q. In addition to these shares with which

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I have been dealing that you acquired under option, did you acquire any other shares; did you or any member of your family acquire any other shares of Trans-Canada at a price less than the then market price or less than this price of \$8?

MR. TANNER: Yes. At the time of employment with the Trans-Canada Pipe Line, there was another condition of employment which provided that the Delhi group would sell me 5,000 ordinary shares of Trans-Canada Pipe Lines at \$1.00 per share, and the Western Group, made up of those companies we have listed before, did the same thing.

I transferred, to my wife, Mrs. Tanner,
September 23, 1955, those two options and she exercised the option for 2,500 shares of the Delhi
group and 2,500 shares of the Western Group on
December 1st, 1955 and, in January of 1956, she
exercised 2,500 shares of each, making the full
10,000 shares.

One share, just to keep the records straight, was transferred to me, at which time I used that as my qualifying share and returned the share I had held from the company as my qualifying share.

Q. And just so that we have it clear in the record, in case there are some other documents, what are the Christian names of your wife?

MR. TANNER: Sarah Isabelle.

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Q. Can you tell us, if you know of your own knowledge, whether Mrs. Tanner still owns those shares or whether she had disposed of any?

MR. TANNER: She still owns 9,999 shares.

Q. Apart from that transaction of which you have told us, were there any other shares acquired by you or by any member of your family, of Trans-Canada, for a price other than the \$8 or at the market, to your knowledge?

MR. TANNER: No others that I know of.

Q. Now, Mr. Coates, when did you join the Pipe Line?

MR. COATES: August 1st, 1954.

Q. And, prior to your joining the company, where were you residing?

MR. COATES: I resided in Houston, Texas and was senior vice-president of the Tennessee Gas Transmission Company.

Q. How long had you been senior vicepresident of the Tennessee Gas Transmission Company?

MR. COATES: Well, I had been senior vice-president two years. I had been employed by the company for eleven years.

Q. When you came with the company, you came to take the position of general manager and vice-president?

MR. COATES: It was executive vicepresident and general manager.

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Q. Were the terms of your employment committed to writing and an agreement executed between you and the company?

MR. COATES: Yes, sir, it was.

Q. And I have, in Exhibit C-19-6, a memorandum of agreement, made the 2nd day of August, 1954, between Trans-Canada, of the first part, Charles S. Coates, of the second part, and then Canadian Delhi and all of the companies which we have listed, and the Western Group, of the third and fourth parts.

MR. COATES: Yes, sir.

Q. Is that the agreement that was the agreement of employment that was entered into between you and the company?

MR. COATES: Yes, sir, that is correct.

Q. And Clause 1 of the agreement, at the bottom of page 2, provides that the term of employment is for a period of 5 years?

MR. COATES: That is correct, sir.

Q. And Clause 4 provides that you will receive an annual salary of \$45,000 per annum for the first three years and then the salary was to become \$50,000 for the remaining two years of the contract.

Is that correct?

MR. COATES: Yes, sir, that is correct.

Q. And, as in the case of Mr. Tanner,

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the Western Group and Delhi both were required to guarantee the payment of these sums?

MR. COATES: Yes, sir.

Q. Was that at your request?

MR. COATES: Yes, sir.

Q. Now Clause 6 provides as follows: "Subject as hereinafter provided, the "company hereby gives and grants unto the "executive an option, irrevocable unless "otherwise terminated under the provisions "of this agreement, within a period of 5 "years from the 1st day of August, 1954 "to purchase 50,000 ordinary shares of the "capital stock of the company of the par "value of \$1.00 per share at a price which "shall be the lesser of the following, "namely, (a) the fair value (ascertained "as hereinafter provided) of the said "shares at the time of the exercise of "such option; or (b) the sum of \$8 per "share."

Now, did you, in the year 1954, exercise that option in part or in whole?

MR. COATES: No, sir.

Q. When did you first exercise it?

MR. COATES: On February 11, 1954 -- I

mean 1957; I beg your pardon.

Q. To what extent, on that date, did you

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exercise it?

market.

MR. COATES: To the entire option of 50,000 shares.

Q. And what price did you pay?

MR. COATES: \$8.

Q. Now, what has happened to those shares that you acquired, the 50,000? Do you still own them, in part or in whole?

MR. COATES: I own 40,000 now.

Q. What have you done with the other ten?

MR. COATES: I sold them on the open

Q. When?

MR. COATES: In the latter part of September and first part of October of 1957.

Q. And would you give us the aggregate sum that you received for the sale of them?

MR. COATES: It was about \$280,000 for the 10,000 shares.

Q. Now, did you come seeking the company for this position or did the company come seeking you for the position?

MR. COATES: The company came seeking me.

Q. Prior to your joining the company,
had you been in any way associated with the Canadian
Delhi or with the Western Group or any member of it?

MR. COATES: No, sir.

Q. Now, this salary, was that your

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suggestion, \$45,000, increasing to \$50,000 and guaranteed? Was that your idea or was it the company's idea?

MR. COATES: As to the amount, sir?

Q. Yes.

MR. COATES: It was a salary that was very nearly the salary that I was receiving where I was employed at the time they sought me.

Q. What were you receiving in the position with Tennessee?

MR. COATES: I was paid \$37,500 a year and had other benefits from the company in connection with retirement and a thrift annuity that the company made contributions to, so that my annual "take", so to speak, from the company was about \$47,500 a year.

Q. Now, dealing with the matter of the option, whose idea was that?

MR. COATES: When I was contacted by this group, it was suggested that a 50,000 option would be available.

Q. 50,000 shares?

MR. COATES: Yes.

Q. By the person who contacted you?

MR. COATES: Yes, sir.

Q. Who was that?

MR. COATES: Mr. Frank Schultz, who was at that time vice-president and director of Trans-

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Canada Pipe Lines and, I believe, also vice-president and director of Canadian Delhi.

Q. Is he a Dallas gentleman?

MR. COATES: Yes, sir.

Q. What about this price that was fixed here? Was there any discussion with you about that \$8?

MR. COATES: I was told that the 50,000 share option would be available and that other shares of the company that were being distributed would be at that price and that would be the price at which they would be available to me.

Q. Under the contract of employment that you had at that time with Tennessee Gas, did you have any option privileges?

MR. COATES: Yes, sir, I did.

Q. What did they amount to?

MR. COATES: They amounted to about 20,000 shares.

Q. Were you able to exercise that option when you came with Trans-Canada?

MR. COATES: I was able to exercise a part of it. A part of it was not exercisable until after the passage of a period of time from the date of granting, and I left before that time had arrived.

Q. And, as a result, how many shares were you able to exercise the option on and how many did you have to pass up?

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MR. COATES: I got about 10,000 shares and had to pass up the remainder of them.

- Q. And have you still got those 10,000 shares that you received under that option?

 MR. COATES: Yes, sir, I do.
- Q. And what was the benefit that you received in the acquisition of them, as below the market price at that time?

MR. COATES: Well, Tennessee Gas, as do a number of other companies in the United States, have what is known as a restricted stock option plan for officers and key personnel.

Under the Income Tax Act in the United States, those shares cannot be granted to an optionee for less than the then 85 per cent of the fair market value on the date of the granting of the option, and in Tennessee's case their option plan provides that the price shall be 95 per cent of the fair market value at the date the option is granted.

- Q. That is fair market value as determined by the price and the exchange as on that day?

 MR. COATES: That is correct, sir.
- Q. Now, from the time that you acquired this option in August of 1954 up to the time you exercised it in February of 1957, had you assigned or pledged any part of it?

MR. COATES: Only as Mr. Tanner did, in connection with the arrangements we had with the

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Dominion of Canada.

Q. And that was released?

MR. COATES: That was released when our indebtedness to the Government was paid off, in the latter part of February, 1957.

Q. Now, you are presently the president of the company and chief executive officer?

MR. COATES: Yes, sir.

- Q. When did you take over that position?
 MR. COATES: On June 12, 1957.
- Q. And it was on that date that Mr. Tanner moved to be chairman of the Board?
- Q. Has any member of your family, to your knowledge, directly or indirectly received any shares of Trans-Canada for any price other than the market price?

MR. COATES: That is correct, sir.

MR. COATES: No, sir.

Q. Now, just a general question, but I am still dealing with the period of 1954: in addition to these two options, how many shares, in the aggregate, were the subject matter of options?

MR. COATES: Just a moment, sir.

What years did you say, sir?

Q. Up to December 31, 1954.

MR. COATES: Well, up until December 31, 1954 there was one other option of 5,000 shares that had been granted to Mr. R.J. Wallace.

M. colors: ...,



Q. Who was Mr. Wallace?

MR. COATES: Mr. Wallace was an employee of Trans-Canada who was charged with the responsibility of purchasing our gas supply from the producers.

Q. And was that option exercised in due course?

MR. COATES: Yes, sir, it was.

 $\ensuremath{\mathtt{Q}}.$ Is Mr. Wallace still an employee of the company?

MR. COATES: No, sir, he is not.

Q. When was the option exercised by him?

MR. COATES: The 16th of April, 1957.

Q. At \$8?

MR. COATES: Yes, sir.

Q. Do you know whether or not he still owns those shares or any part of them?

MR. COATES: I see here that Mr. Wallace assigned this option to a Mr. I.P. Laroux, of Dallas, Texas, who, in turn, exercised the option.

Q. When was that assignment?

MR. COATES: The 2nd of April, 1957.

Q. And Mr. Laroux exercised it, and do you know whether Mr. Laroux disposed of the shares or whether he still owns them?

MR. COATES: No, sir, I don't know.

MR. McNEILL: Mr. Chairman, I am just going on memory now. I believe he did dispose of

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them and we are prepared to give you whatever information we have on that. I have not got that information now.

MR. COATES: I may add that Mr. Laroux is now deceased.

MR. PATTILLO: You mean the shock of what he got ---

MR. COATES: It could be.

MR. PATTILLO: Q. Now, that was the situation as at the end of 1954, so far as the finances of the company were concerned.

Now, perhaps I had better cover this: during the year 1954, shortly after you came to the company, Mr. Coates, a line was built in the Province of Ontario?

MR. COATES: Yes, sir.

Q. In whose name was that line built?

 $$\operatorname{MR}.$ COATES: It was built in the name of Western Pipelines.

Q. Is Western Pipelines a wholly-owned subsidiary of Trans-Canada?

MR. COATES: Yes, sir.

Q. What was the length of the line?

MR. COATES: It is 76 miles of 20-inch line.

Q. What are the termini?

MR. COATES: It starts from the international boundary at the Niagara River, where it connects with a line of the Tennessee Gas Trans-

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mission Company and extends to Sheridan, Ontario,
which is on the outskirts of Toronto. The line
was built to start deliveries of gas to the Consumers' Gas Company that they had arranged for with
Tennessee Gas Transmission Company.

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- Q. And how was that line financed?

 MR. COATES: A bank loan.
- Q. To Western?

MR. COATES: Yes.

Q. Did Western operate that line after building it?

MR. COATES: No, sir, it was leased to the Niagara Gas Transmission Company which is a wholly-owned subsidiary of the Consumers! Gas Company. They leased it and are operating it.

Q. So that the revenue was a rental revenue that was coming into Western from this Niagara Transmission Company?

MR. COATES: Yes, sir. It has not been a very profitable transaction: the rental arrangement was merely to get interest and appreciation on the property.

Q. How long does the lease last?

MR. COATES: It lasts until November 1st, 1959, or until such time as western Canadian gas is available to the Consumers' Gas Company, whichever is the earlier date.

Q. It will be about the same date, according to your estimate?

MR. COATES: Oh, no, sir.

Q. Oh, you expect to be there in November, 1958; I am sorry.

MR. COATES: Yes.



Q. So, you anticipate being there a year ahead?

MR. COATES: And at that time the lease would terminate.

Q. From December 31st, 1954 to December 31st, 1956 how many shares of the common stock of the company were issued?

MR. COATES: I will get Mr. Berry back to answer that.

Q. Very well, thank you.

MR. BERRY: I understand the question relates to the period between December 31st, 1954 and December 31st, 1956?

Q. Yes.

MR. BERRY: During that time a total of 1,257,592 shares were issued, bringing the outstandings at the end of 1956 to 1,928,184 shares.

Q. Of the one-million-two odd that were issued, were any of them issued for other than cash?

MR. BERRY: No, sir.

Q. What price was received for all of them?

MR. BERRY: \$8 per share.

Q. Were any of these shares issued to the public, or were they still confined to the two groups that were set up in July, 1954?

MR. BERRY: None were issued to the public, but included in this total are numbers of shares

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issued to additional corporate shareholders other than those previously mentioned.

Q. Who were they, and in what quantities did they receive shares?

MR. BERRY: Some of them were issued to Canadian Delhi and the Western Group; in addition to that a total of 327,791 shares were issued to Tennessee Gas Transmission Company partly in 1955 and partly in 1956. A total of 327,791 shares were issued to Canadian Gulf Oil Company in February, 1956. There is one other transaction, but I would like to consult Mr. McNeill.

And a total of 268,507 shares were issued to Hudson Bay Oil and Gas Company, that number bringing their holdings to a total of 327,791 shares at that date. They had held the former amount as part of the Western Group.

Q. How did they get into it?

MR. NESBITT: They were not one of the original parties to that group, sir, but the group was called on to put up funds at regular intervals, and subsequently the Hudson Bay were invited into the Western Group for a 10 per cent interest, and from that point on they put up their funds on call with the other members of the Western Group. At the time Mr. Berry is talking about the Tennessee Gas Transmission, the Gulf Oil Company and the Hudson Bay Oil and Gas Company jointly lent their



credit to take a commitment of some \$40 million for steel to keep Trans-Canada's position and schedule with the steel mills, and they simultaneously acquired a 17 per cent interest each in the company. This additional purchase by the Hudson Bay Oil and Gas Company brought their interest to 17 per cent, and the purchases by the Tennessee and Gulf Oil -- I am sorry; Canadian Gulf -- brought their interest to 17 per cent.

Q. Well, I follow the share acquisition of Gulf and Tennessee but, according to what Mr.

Berry just told us, there were only 200-and-somethousand sold to Hudson Bay, and yet, at the end of 1956, they had 327,790-some.

MR. BERRY: I intended to say that they had previously held the difference between 327,791 and ---

Q. When did they acquire that?

MR. BERRY: They had been acquired during the year 1955 and possibly prior as part of the Western Group.

Q. From the company, or from members in the group?

MR. BERRY: I would prefer to have Mr. Nesbitt answer that.

Mr. McNeill is checking. While we are waiting for that, I would like to make it clear that when I have said in this summary, of the

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issue of our shares that they were issued for cash, in almost every instance they were issued on the strength of cash advances that had already been made to the company, but it, in effect, means they were issued for cash.

The shareholders' ledger indicates that on February 9th, 1956, 59,282 shares were transferred out of the name of the Montreal Trust Company, which you will recall was the name in which the Western Group shares were issued. That date of February 9th, 1956 is the date on which the entire distribution of the Western Group shares was made to the various members of the group by the Montreal Trust Company, and at that time Hudson Bay took into their name 59,282 shares. Subsequent to that they acquired, in return for cash advances, 268,507.

Q. Yes, that is it. Mr. Nesbitt, were all of these shares that were issued up to December 31st, 1956 held by the original people -- continue to be held by the original people who had come in in July, 1954 from the two groups, or by the newcomers that had been invited in, whom we have just heard?

MR. NESBITT: In the original Western Group there was a company called Anglo-Canadian Oil Company.

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MR. NESBITT: And that company was acquired by another company called Canadian Oil Companies, and the company that had acquired Anglo did not want to retain their interest in Trans-Canada Pipe Lines. Anglo-Canadian's interest was taken up proportionately by the remaining members of the so-called Western Group.

Q. At what price?

MR. NESBITT: \$8 a share.

Q. Prior to December 31st, 1956 was there any market price for these shares?

MR. NESBITT: I never heard of any market, sir. There were times when it looked very doubt-ful.

Q. Do you know of any of these shares being traded in amongst the holders for any price other than \$8?

MR. NESBITT: Not for other than \$8.

Q. No.

MR. NESBITT: There were transactions at that price, though: for instance, Osler, Hammond & Nanton sold some of their interests to other members of the Western Group at \$8 during this period.

MR. PATTILLO: Mr. Chairman, I think you probably have a couple of questions, and, as far as I am concerned, this is a logical place for me to stop.

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THE CHAIRMAN: That is fine, thank you, Mr. Pattillo.

There are one or two questions I would like to ask Mr. Tanner and Mr. Nesbitt. I got the impression when you were answering the first questions of Mr. Pattillo that you were being very modest, Mr. Tanner, in taking a few days to make up your mind whether you were going to leave Merrill Petroleums: I want to ask you a direct question: isn't it a fact that there was a great deal of pressure put on you to accept this position from prominent people in this country?

MR. TANNER: That is correct.

THE CHAIRMAN: And didn't you have a very hard time making up your mind what to do?

MR. TANNER: I certainly did, but I didn't intend to say that to this Commission.

THE CHAIRMAN: Well, I am helping you say it, because I think you were being too modest.

Secondly, when you were with Merrill Petroleums did you have any options on any stock of Merrill Petroleums?

MR. TANNER: Yes, I had some options.

I have a note of the exact number: I had an option to purchase 62,500 shares.

THE CHAIRMAN: At what price?

MR. TANNER: \$3; that is the price the stock was issued at following the option. I took

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the option before any stock was sold, and the stock was sold after that at \$3.

THE CHAIRMAN: Did you lose that option?

MR. TANNER: No.

THE CHAIRMAN: By moving?

MR. TANNER: No.

THE CHAIRMAN: What about pension benefit?

MR. TANNER: No, I had no pension benefit.

I had only been president of Merrill Petroleums for approximately two years.

THE CHAIRMAN: I will ask you and Mr.

Nesbitt together: was there any thought in the minds of the directors of Trans-Canada at the time these options were granted, which was in accordance with the dates of these agreements in 1954, or had there been any discussion among the directors that financial assistance from the Dominion Government might at some time be necessary?

MR. NESBITT: I don't remember any official discussions along those lines, sir. We felt that with the combined market on Emerson and the Eastern Canada, that we had a financeable project. We were unable to conclude our market at Emerson and, consequently, the market we had available to us under contract in Canada did not support the financing required for a line from the Alberta/Saskatchewan border to Montreal; that is how the Crown Corporation came into existence,

but our studies showed an economic project with the Emerson sale, and we fully hoped and expected to be able to finance it if we could have concluded our contract for sale of Emerson and with the Eastern distribution systems.

THE CHAIRMAN: But surely the Crown Corporation idea came into being quite a long time after this, didn't it?

MR. NESBITT: Oh, very much so, sir.

THE CHAIRMAN: So, getting back to my question, and at the time of the granting by Trans-Canada -- at which time you were a director of Trans-Canada?

MR. TANNER: That is correct.

THE CHAIRMAN: . . . of these options to these executives, or the possibility or probability -- either one -- of having to go to the Federal Government for help in financing, was it being considered or discussed?

MR. TANNER: No, sir.

THE CHAIRMAN: Thank you very much.

MR. COMMISSIONER CUSHING: Mr. Nesbitt, you have been, I gather, for many years in financial transactions of this kind in what might be termed big business: is it a common practice to enter into agreements for senior executives in new companies like this?

MR. NESBITT: Yes, sir; I would say

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particularly in new companies, but it is also done in the case of ones that are already in existence. The competition for management is keen, and I would like to say I was on the Board of Trans-Canada and we felt we desperately needed these two men, and I think that is evidenced by the fact that the two groups were prepared to enter into an agreement to guarantee their salaries for this period of time; and with the difficulties that appeared to lie ahead and the work these men were going to have to do, and the positions they presently held, we had to make some kind of offer that would induce them to come. I might say, in spite of that offer we had to put all the pressure we could find and bring it to bear to get both of them to come. If you would like examples of other companies that have granted options, I believe the major oil companies in this country have. I know that some of our utilities have, to mention types of industry that have. However, particularly in the case of a new venture, where the chances of success are in doubt, then it is, I would say, almost essential to grant an option to attract the type of management which you want.

MR. COMMISSIONER CUSHING: Thank you.

THE CHAIRMAN: Another good example is
the fact that Mr. Tanner just told us he had one
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speak of are the ones in your personal knowledge, are they, Mr. Nesbitt?

MR. NESBITT: That is right, sir.

THE CHAIRMAN: Well, gentlemen, we will adjourn the hearings of the Commission until 9.45 tomorrow morning.

---Whereupon the hearings adjourned at 4.40 P.M. until 9.45 A.M., Thursday, February 20, 1958.



ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,

VOLUME No.:

FEB 2 0 1958

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

371 BAY STREET
TORONTO
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, ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Monday, February 3, 1958, at 10.00 A.M.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. - Chairman

Mr. J.L. Levesque, - Member

Mr. G.E. Britnell, - Member

Mr. G.G. Cushing, - Member

Dr. R.D. Howland, - Member

Mr. L.J. Ladner, Q.C. - Member

Dr. R.M. Hardy, - Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

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APPEARANCES:

Representing Trans-Canada Pipe Lines Limited:

Mr. N.J. McNeill - Counsel

Mr. F.P. Layton - Associate Counsel

Mr. Charles S. Coates - President

- President of Common-Mr. William B. Tippy wealth Services Inc.

Vice-President Mr. H. Dix Fowler

- General Partner of Mr. Paul F. Clarke Lehman Brothers, Investment Bankers, New York, N.Y.

Mr. R.C. Berry Treasurer

- Natural Gas Consul-Mr. Ralph S. Orme tant, Commonwealth

Services Inc.

Vice-President and

Chief Gas Supply Mr. V.L. Horte Engineer.

Mr. Gladstone Stewart, Jr. -Vice-President, De Golyer and MacNaughton, Dallas,

Texas.

President, Nesbitt, Mr. A.D. Nesbitt Thomson & Company,

Investment Bankers, Montreal, P.Q.

- Chairman of the Board Mr. N.E. Tanner

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Thursday, February 20, 1958

---On resuming at 9.45 a.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings.

Mr. Pattillo, before you proceed, there is a slight correction in yesterday's record of the transcript which I would like to mention. It occurs at the bottom of page 1850. The words "they voted" should be deleted and the words "out of" should be substituted so that the paragraph, which is a statement I made, would read:

"The Chairman: That is right,
"isn't it? I mean, 125,000 shares in
"the western province, 360,000 shares,
"of the convertible debentures, out
"of a total shares issued of almost
"5,000,000 for cash, 4,825,890."

Thank you.

Mr. Pattillo?

MR. PATTILLO: Q. Mr. Berry, we were dealing last night at adjournment with the cpticn situation down to December 31, 1956, and I had dealt with the three options that had been granted prior to the expiration in 1954. To how many persons were options to acquire shares granted between December 31, 1954, and December 31, 1955?

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MR. BERRY: There were no options granted during that period.

Q. Between December 31, 1955, and December 31, 1956?

MR. BERRY: During that period an option was granted on 12,500 shares at \$8 per share to Mr. T. H. Atkinson.

Q. Who is Mr. Atkinson?

MR. BERRY: Mr. Atkinson is a director of Trans-Canada having assumed his directorship at that time and he is also chairman of the finance committee of our Board.

Q. What were the terms of the option granted to Mr. Atkinson?

MR. BERRY: This was at a price of \$8 per share. I think, if we can refer to his option agreement, which is in the binder marked "Contracts other than Gas Sales Contracts".

Q. Dated the 12th of July, 1956?

MR. BERRY: That is correct.

Q. 12,500 shares at \$8 and he could exercise the option ---

MR. BERRY: Within a period of two years from the date of the agreement.

Q. Did Mr. Atkinson, in fact, exercise the option?

MR. BERRY: He did.

Q. When?

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MR. BERRY: He exercised it to the extent of 2,500 shares on March 27, 1957, and to the extent of 10,000 shares on June 21, 1957.

Q. And has Mr. Atkinson continued to hold these shares he acquired under the option?

MR. BERRY: Yes. Mr. Atkinson has advised me that he has disposed of a first block of 2,000 shares at a price of $20\frac{1}{2}$, an average price of $20\frac{1}{2}$, and 6,500 at an average price of 40-3/4, and he presently holds the remaining 4,000 shares.

Q. What was the reason for granting this option to Mr. Atkinson?

MR. BERRY: I would think it proper for Mr. Nesbitt to answer that question.

Canada Pipe Lines wished to have a completely arm's length transaction between the company and the underwriters. As I was on the Board of Trans-Canada and one of the underwriters, the Board desired to have an independent person to appraise the financial scheme which was prepared and set up by Mr. Kernan and to negotiate with the underwriters. Mr. T. H. Atkinson had been the general manager of the Royal Bank of Canada and had recently retired and, consequently, was eminently suited for this position and he was engaged by the company without salary but was

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invited to take this option for his services.

Q. Now, in addition to Mr. Atkinson, did you grant any options to anybody else in 1956?

MR. BERRY: There was another transaction in 1956 which is a subscription running option. May I refer you to the prospectus which is under Tab B in the submission binder, page 7, and on that page there is a note, No. 6, which states that on May 28, 1956, Francis Kernan subscribed for the purchase of 40,000 common shares of the company at a price of \$8 per share.

Q. Was the difference between the transactions of Mr. Kernan and the other options, of which we have been talking, that Mr. Kernan was bound to buy and pay for these shares?

MR. BERRY: He was bound to buy them on the conditions further stated in this note. The subscriptions provided common shares covered thereby would be issued against payment contemporaneously with the initial financing of the company's pipe line system. In other words, it was contingent on the financing.

Q. If the financing occurred, he was bound to pay for them and, if it did not occur, he was not obligated?

MR. BERRY: That is my understanding of that.

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Q. Who was Mr. Kernan?

MR. BERRY: I would think it appropriate for Mr. Paul Clarke to answer that question.

MR. CLARKE: Mr. Pattillo, Mr. Kernan at that time was a limited partner of White, Weld & Company. He had ceased to be a general partner some time previously and was, more or less, in business with them although quite closely identified with White, Weld emotionally. He had been, I consider, if you can talk about one man being a pipe line man in Wall Street, he was it.

- Q. Was it in May, 1956, that he first became associated with the Trans-Canada enterprise?

 MR. CLARKE: I believe so.
- Q. And who are White, Weld & Company?

 MR. CLARKE: They are an investment
 banking firm in New York.
- Q. And were one of the underwriters of the financing of Trans-Canada?

MR. CLARKE: Yes, sir.

Q. Now, this note, Mr. Berry, you have referred me to says that, "subsequently one-half of the subscription that is assigned to White, Weld & Company by Mr. Kernan -- can you tell us when that assignment was made and whether it was for value or simply a gift?

MR. BERRY: I cannot give you the exact date without reference to our records but, from

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memory, I would say he made this assignment some time around the 1st of January, 1957, but without reference to our files I cannot give you a more precise date than that and, so far as ---.

Q. Will you check that and put that in the record later?

MR. BERRY: Yes. So far as I am aware, there was no consideration for the assignment other than the undertaking by White, Weld to pay for their shares at the price.

Q. Now, did Mr. Kernan and White, Weld & Company subsequently carry out the contract and pay for the shares?

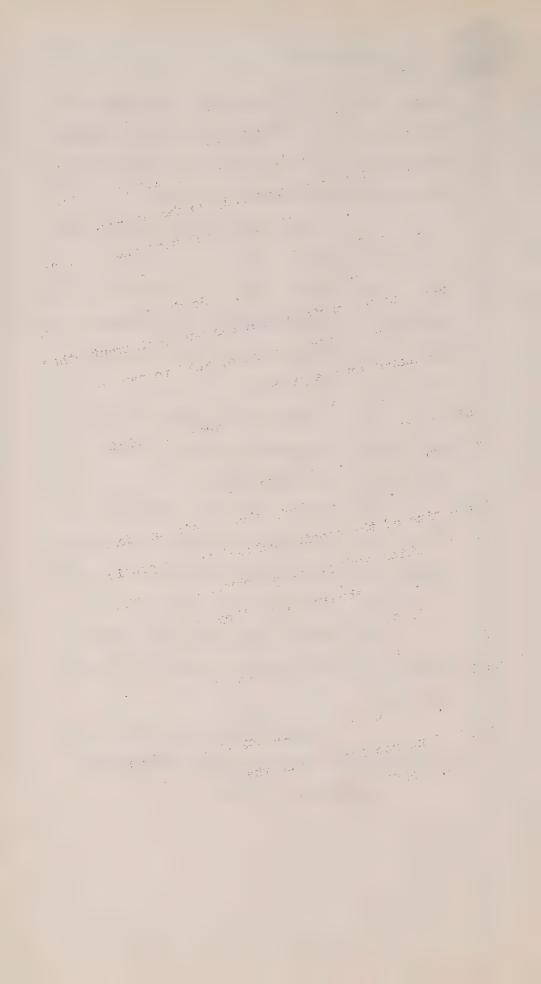
MR. BERRY: Yes, sir. This was done at the time of the closing related to our public financing which took place on February 26, 1957.

Q. February 26th, they paid ---

MR. BERRY: That was at the time we received the funds from the proceeds of our public financing.

Q. Now, were there any other options or subscriptions received during the year 1956?

MR. BERRY: No, sir.



Q. Now, I want to ask you about the direction of the company as at December 31, 1956, and I refer you to page 30 of the prospectus, which was dated ---

THE CHAIRMAN: February 13, 1957.

MR. PATTILLO: I cannot find the date.

THE CHAIRMAN: It is at the bottom of the page, February 13, 1957.

 $$\operatorname{MR}_{\:\raisebox{1pt}{\text{\circle*{1.5}}}}$$ That is the date at the foot of the cover.

MR. PATTILLO: Q. Now, Mr. Eddie Tanner is shown in the prospectus as being president-director and he had been from the time of his appointment in 1954; is that correct?

MR. COATES: That is correct. I will answer these questions, Mr. Pattillo.

Q. And you, Mr. Coates, are shown as executive vice-president and general manager, and you had been from the time of your appointment in 1954?

MR. COATES: Yes, sir, I was elected a director in the early part of 1954.

Q. Mr. H. Milner, Q.C. is shown as vice-president, director: how long had Mr. Milner been a vice-president, director?

MR. COATES: He had been since the amalgamation of the two companies.

Q. And was he there as a nominee of

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any one of the Western Group, do you know that?

MR. COATES: Well, he had been connected with the Western Group, with Western Pipelines, and I would say that he was.

Q. And we have Mr. Frank A. Schultz as a vice-president, director: who is Mr. Schultz?

MR. COATES: Mr. Schultz was a vicepresident and director of Canadian Delhi and had
been a vice-president and director of Trans-Canada
Pipe Lines prior to the merger of Trans-Canada and
Western, and then continued in that position in the
merged company.

Q. Then we have the Honourable Edouard

Asselin: how long had he been a director?

MR. COATES: Just one moment, I will have

to get some records on that.

Mr. Pattillo, Mr. McNeill informs me that he does not have the original records of some of the early directors, but we will be glad to get the information for you. It is my understanding that Mr. Asselin was a director of Trans-Canada prior to the merger of the two companies. I am sorry, that needs to be corrected; he was elected a director April 30, 1954.

- Q. Was he a representative of any group?

 MR. COATES: Not to my knowledge, sir.
- Q. And who is the gentleman?

MR. COATES: He is a solicitor and resides in Montreal, Quebec.

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- Q. Then we have Mr. Atkinson. I understand he joined the Board in 1956; is that correct?

 MR. COATES: Yes, sir.
- Q. Now, Mr. E.W. Bickle,, when did he join the Board?

MR. COATES: Mr. Bickle was elected a director April 30, 1954.

Q. And was he a representative of any one of the two groups, either the Western Group or the Delhil Group?

MR. COATES: No. sir, not that I know of.

Q. Then we have Mr. R.C. Brown, and he is associated with the Hudson Bay Oil and Gas; is that right?

MR. COATES: That is correct; he is president of the Hudson Bay Oil and Gas Company and was elected a director on the 8th February, 1956.

Q. Then Mr. John R. Fell: who is Mr. Fell?

MR. COATES: Mr. Fell is a partner in

Lehman Brothers, an investment firm in New York City.

He was elected a director on April 30m 1954.

Q. Was he a representative of either of the groups?

MR. COATES: Not that I know of.

Q. Then, we have Mr. E.D. Loughney he was assocated at that time with Canadian Gulf and is now with B.A. Oil; is that correct?

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MR. COATES: That is correct, sir. Mr. Loughney is at the present time senior vice-president of British American Oil Company. He was elected a director on February 8, 1956.

Q. Mr. R.A. MacPherson, he is of Regina: when did he become a director?

MR. COATES: April 30, 1954.

Q. Was he a representative of either one of the groups?

MR. COATES: No, sir, not to my knowledge.

Q. Mr. J.H. McCausland: he is from Wood, Gundy in Toronto?

MR. COATES: Yes, sir, that is correct.

Q. When did he become a director?

MR, COATES: He became a director on March 16, 1955.

Q. Was he representing Wood, Gundy on the Board?

MR. COATES: Yes, sir.

Q. And prior to his election to the Board, had there been anyone else representing Wood, Gundy?

MR. COATES: Mr. Allan Williamson.

Q. Mr. C.W. Murchison: is that the famous Mr. Murchison from Texas?

MR. COATES: Yes, sir, that is Mr. Murchison from Texas.

Q. And how long was he on the Board?

MR. COATES: Well, he is still on the Board

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and he was elected to the Board of Trans-Canada on April 13, 1951.

Q. So he was in the original Trans-Canada/Delhi group?

MR. COATES: That is correct, sir.

Q. And Mr. Nesbitt: when was Mr. Nesbitt elected to the Board?

MR. COATES: On April 30, 1954.

Q. And Mr. G.P. Osler: he is from Osler, Hammond & Nanton in Winnipeg?

MR. COATES: Yes, sir.

Q. When did he become a member of the Board?

MR. COATES: April 30, 1954.

Q. Now, we come to a name we are probably going to hear a good deal of -- Mr. Gardiner Symonds.

MR. COATES: That is correct.

Q. When did he join the Board?

MR. COATES: On December 9, 1955.

Q. Who is Mr. Symonds?

MR. COATES: President and director of Tennessee Gas & Transmission Company.

Q. Mr. Jules R. Timmins: when did he become a member of the Board?

MR. COATES: On April 30, 1954.

Q. And was he a representative of any group?

MR. COATES: Not to my knowledge, sir.

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Q. And Mr. Ross Tolmie: he is a barrister in Ottawa?

MR. COATES: That is correct.

Q. And he was with one of the original groups, was he not?

MR. COATES: He was with the original Trans-Canada group and was elected a director on April 13, 1951.

Q. And Mr. A.P. Craig; he is one of the officers of the company, is he not?

MR. COATES: Yes, sir, he is not a director.

Q. He is not a director?

MR. COATES: He became an officer of the company on July 23, 1954.

Q. July 23, 1954?

MR. COATES: Yes, sir.

Q. Now, in addition to those -- it has been brought to my attention that I did not clearly bring out who Mr. E.W. Bickle was. Who is Mr. E.W. Bickle?

MR. COATES: Mr. Bickle is a partner or was

-- he is now retired, just about the first of this

year; but he was a partner in the investment firm of

Wills & Bickle in Toronto.

Q. Now, in addition to these people who are listed as being directors of the company at the time of the financing in 1957, were there any persons who were directors of the company between the period

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April, 1954 and December 31, 1956 who had resigned?

MR. COATES: Yes, sir, there were. There are a number who were in the original Trans-Canada group who resigned, and then there have been others who have resigned since that time.

Q. Let us take from April 1954 when the new set-up was arranged and Mr. Tanner came in, down to December 31, 1956: were there any persons, directors, during that period who are not shown in the list I have just read?

MR. COATES: Yes, there are.

Q. Who were they?

MR. COATES: Mr. Allan H. Williamson, who was elected a director on April 30, 1954, who resigned on March 16, 1955.

Q. And his place was taken by Mr. McCaus-land?

MR. COATES: That is correct, sir.

Q. Next?

MR. COATES: Senator Peter Campbell, who was elected a director on April 30, 1954, and resigned May 1st, 1956.

Q. And who took his place?

MR. COATES: I believe that Mr. Atkinson was elected to take his place.

Q. And Senator Peter Campbell is a member of the Senate of Canada and practices law in the City of Toronto?

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MR. COATES: That is correct.

Q. Next?

MR. COATES: That is all.

Q. Those were the only two?

MR. COATES: Yes, sir.

Q. Now, I just want to get a little history on the record up to December 31, 1956. Am I correct in thinking that prior to 1954 there were two companies, Trans-Canada and Western, both seeking to get export permits from the Conservation Board of the Province of Alberta so they could transport gas out of the Province towards the East?

MR. COATES: That is correct, sir.

Q. And the original concept of the Western Group was that they would transport the gas to as far East as Winnipeg and then South into the States, is that correct?

MR. COATES: Well, that is my understanding. Perhaps Mr. Nesbitt could enlarge on that. I was not here, personally, but from history and records, that is my understanding.

MR. NESBITT: That is correct, sir. The initial concept -- the initial stage of the Western Group project was to transport gas from Alberta to Winnipeg and South to Emerson.

Q. South to Emerson. And that was to be the end of the line?

MR. NESBITT: In the initial stage. We



subsequently modified that plan to bring gas East when markets could support the financing.

Q. And you proposed to bring the gas
East by selling at Emerson to American people and
then trying in at Windsor to transport into Canada:
was that the concept?

MR. NESBITT: We hoped to build up the markets initially through approaches from the States into Canada, and ultimately when those markets would support the balance of the line, to expand the line East.

Q. Now, what was the original concept of Trans-Canada; can you tell us that?

MR. NESBITT: I was not associated with it, but I think I am correct in stating that they intended to bring gas from Alberta to the Eastern markets in Canada without any export sale, that is, without any sale outside of Canada.

Q. Was their concept to put a Canadian line right through to Toronto and Montreal?

MR. NESBITT: I believe so.

Q. Now, in the original concept of Western
-- and I am talking prior to the merger in 1954 -who were you going to sell this gas to in Emerson?

MR. NESBITT: To Northern National Gas Company.

Q. And where is the company situated, where is its head office?

MR. NESBITT: Omaha

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Q. And was there, prior to 1954, any contract made with Northern Natural Gas for the proposed sale at Emerson to it?

MR. NESBITT: There was a contract between Western Pipe Line and Northern Natural Gas.

Q. And had Northern Natural Gas, prior to 1954, made any application to the Federal Power Commission in the United States for a permit to import the gas?

MR. NESBITT: I don't think it was before 1954, sir.

MR. COATES: No, sir, they had not.

Q. Not before 1954?

MR. COATES: That is correct.

Q. Now, immediately prior to the merger, had either one of these two companies been successful in obtaining an export permit from the Province of Alberta?

MR. COATES: No, sir.

Q. How did the merger come about, Mr. Nesbitt; can you tell us that?

MR. NESBITT: Yes, sir, I believe that the Province of Alberta desired the export sale at Emerson, which would result in a larger volume that would be available in the eastern markets of Canada only.

I believe that the Federal Government liked the concept of the Trans-Canada line, an

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all-Canadian road, and it is my understanding that the Province of Alberta and the Federal Government each agreed that they would grant permits if these two concepts were put together.

I remember that in 1954, early in that year, and I think it was in January, both groups were invited to Ottawa and we were told ---

- Q. . Is the correct word "invited"?
- MR. NESBITT: I think so, sir, yes.
- Q. Yes?
- MR, NESBITT: At any rate, we attended.
- Q. I am sorry to have interrupted you. Yes?

MR. NESBITT: We were advised that if we could work out an agreement -- and when I say "we", I was the Western group representative -we were advised that if we could work out an agreement with the Trans-Canada group so that we could pool our two schemes, that we would be granted, subject to appropriate hearings, a permit by both the Province of Alberta and the Board of Transport Commissioners.

- Q. Who gave you that advice? MR. NESBITT: Mr. C. D. Howe.
- And he, at that time, was one of the Ministers of the Government of Canada?

MR. NESBITT: He was the Minister of Trade and Commerce, I think, sir.

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- Q. And that is what led up to the merger?

 MR. NESBITT: That is correct.
- Q. Now, following the merger you have told us about the arrangement whereby the control in the new creation was split equally between the Delhi group and the Western group. Down to December 31, 1956, did that original arrangement continue?

MR. NESBITT: It continued up until the time that Canadian Gulf, Tennessee Gas and Hudson Bay -- I am sorry, sir: it continued up until the time that Tennessee took their initial interest in the company, and perhaps somebody could give me that date.

MR. COATES: I think it was November 1st,

MR. NESBITT: November 1st, 1955.

Q. When they came in and took the initial interest?

MR. NESBITT: Yes, sir.

Q. How did Tennessee come, on November 1st, 1955? Did the two groups invite them in, or what was the explanation for Tennessee coming in?

MR. COATES: I will talk on that, Mr.

Pattillo.

Q. Right.

MR. COATES: Trans-Canada had, for some months, been attempting to place a pipe order for

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pipe required to build the western section of the line. At that particular time the only credit that Trans-Canada had was the people who were supporting the company and who were paying \$8 a share for stock, as we required funds.

Since we had no other assets, the steel companies would not accept a purchase order from Trans-Canada. So, after several attempts and after a meeting in New York City with representatives of the U. S. Steel Company, it was concluded that Trans-Canada would have to obtain credit, or an underwriting of their pipe supply if they were going to be able to place the order, so that deliveries could commence in 1956 for construction of the line to begin.

At that time we still had hopes of getting the financing completed so we could commence construction in 1956.

It is my understanding that some of our directors made efforts to get an underwriting for the steel or someone to place the sale in their name and assign it to us, but they were unsuccessful in doing it and, in the latter part of October, this problem was discussed with Tennessee Gas Transmission Company and they agreed to place the order, with an assignment to Trans-Canada as soon as we were able to arrange financing, so we could take it over.

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Q. And was part of the terms of that that they be given a share interest at \$8?

MR. COATES: Yes, sir, they were given the right to buy a number of shares at \$8 that would put them in an equal share position with the two groups that were then outstanding, the Western and the Canadian Delhi group, so Tennessee at that time was given a right to purchase shares that would put them in an equal share position.

Q. Before this happened in November, 1955 -- was that when this all was arranged?

MR. COATES: The first shares that they took down were on December 9, 1955, and on December 23, 1955.

Now, the arrangement for this was negotiated during October, if my memory serves me.

Q. Now, back in the spring of 1955, did Trans-Canada at that time still have a contract with Northern Natural Gas to sell to it at Emerson?

MR. COATES: Yes, sir, we did.

Q. And that contract was cancelled in 1955?

MR. COATES: Yes, sir, the contract had a date of termination on it of April 30, 1955, with the right of either party to cancel if permits had not been obtained so service under the contract would commence.

Q. When was the first contract made

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with Midwest to sell gas to it at Emerson?

MR. COATES: The contract with Midwest was made in August, 1955.

Q. And Midwest was a wholly-owned subsidiary of Tennessee?

 $$\operatorname{MR}.$$ COATES: No, I don't believe it was at that time.

Q. Was it?

MR. COATES: It was an associated company and was directed by Tennessee.

As.I understand it, at that time the only shares outstanding in Midwest were their incorporating shares, and a part of those were held, I believe, by Stone and Webster Securities Corporation in New York.

Q. Was part of this deal with

Tennessee whereby they would get, by the cancellation of the contract with Northern, the giving

of a new contract to Midwest?

MR. COATES: No, sir, it wasn't.

Q. That was no part of the deal at all?

MR. COATES: No, sir, the contract with Northern, as I say, had an expiry date of April 1st, 1955, on it, because both sides had not been able to accomplish the successful obtaining of permits and the contract with Northern was cancelled in June of 1955 and we entered into a

contract with Tennessee Gas in August of 1955.

Q. Do you know a Mr. Freeman, of Tennessee Gas?

MR. COATES: Yes, sir.

Q. Was Mr. Freeman ever associated with Trans-Canada in any way?

MR. COATES: No, sir.

Q. Was Mr. Freeman ever authorized by you or any other officer of Trans-Canada, to your knowledge, to tell Northern that their contract was going to be cancelled and a new one given to Midwest?

MR. COATES: No, sir.

Q. At any of the hearings of the FPC in relation to the application of Midwest to import gas from Trans-Canada at Emerson, has it been suggested, in your hearing, that Mr. Freeman did tell Mr. Merriam, the president of Northern, that the contract between Trans-Canada and Northern was being cancelled?

MR. COATES: I was not present at the FPC hearings where Mr. Merriam testified.

Q. Did you read the transcript?

MR. COATES: Yes, I did read the transcript and that did occur.

Q. That did occur?

MR. COATES: When Mr. Freeman made such a statement to Mr. Merriam, he did so without

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the knowledge and without permission of and without direction from Trans-Canada.

Q. And at the present application, which is still outstanding, of Midwest, it is being fought by Northern as one of the parties opposing the granting of the permit to Midwest?

MR. COATES: Yes, sir. Northern Natural Gas Company is one of the intervenors who are intervening in objection to Midwest Gas Transmission Company.

Q. Now, when Northern had made a previous application to the FPC prior to the spring of 1955 for a permit to import gas from Trans-Canada to Emerson, had that application been opposed by anybody?

MR. COATES: I can't answer that, offhand, Mr. Pattillo. I am sure that -- well, I
see one gentleman sitting in the audience; I know
he is opposing that. That is the coal and railroad interests in the United States, to oppose all
gas applications.

Q. And other than Mr. McGraw and his clients ---

MR. COATES: McGrath is the name, sir.

Q. Other than Mr. McGrath, is there anybody else that you know of opposing the Northern application?

MR. COATES: Well, as the hearing

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developed, the customer companies of Northern Natural Gas Company did oppose.

Q. In 1955 we have Tennessee coming in and we have this cancellation with Northern and we have the new contract with Midwest and, just to get the historical picture, that was the first contract with Midwest. Is that the present contract with Midwest?

MR. COATES: That is the first contract. It is the present contract, with the exception of amendments for extension and, on November 1st, 1957, for an increase in price.

Q. Now, in 1955 were there any approaches made to the Dominion Government at Ottawa for financial assistance to the company?

MR. COATES: I believe I will let Mr. Nesbitt answer that, Mr. Pattillo.

MR. NESBITT: On January 6, 1955, we realized that we were not going to be able to sign up purchase and sales contracts in sufficient volume to complete the financing by the expiry date of our permit, which I think was April 30th of that same year, and we went to the Government and so advised them.

Q. Yes, and what happened then?

MR. NESBITT: The Government were desirous of having this line built and they recognized that we were at rather a deadlock, which

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could only be broken if the company's credit could be established.

To explain that, we were unsuccessful in being able to sign up gas purchase contracts with the producers, who were doubtful of the successful conclusion of this company's project.

Q. Was the difficulty in signing these gas producers a matter of price?

MR. COATES: Yes, sir, it is always a problem of price, to buy gas from the producers, as to price. I don't believe that was the major point at this particular time.

Some of the producers at various times prior to that had committed their gas to promotion projects to take gas out of Alberta and none had been successful to that time, and the producers were not willing to sign contracts with another project that did not seem to be able to get off the ground.

Q. Well, then, you went to Ottawa in 1955 and what was the proposal that you were putting to Ottawa at that time? What assistance were you seeking to get from the Government?

MR. COATES: Mr. Nesbitt can answer that.

MR. NESBITT: We proposed that the Government enter into a deficiency agreement with the company. As I say, we were confident that if the

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company's credit could be established, we would be able to sign up both purchase and sales contracts in sufficient volume to do our public financing.

This deficiency arrangement was one under the terms of which money would be advanced to the company for any deficiency in interest in the early years of the project. We proposed to give a security if this option had to be exercised, if the company's earnings were insufficient to meet interest retirement, and to repay that security before any other payments except first mortgage bonds.

- Q. Now, what happened to that proposal?

 MR. NESBITT: It was turned down, sir.
- Q. And was there any further discussion in 1955 with the Government or with the industrial bank?

MR. NESBITT: Yes, sir. The Government suggested that if the Industrial Development Bank would make a loan to the company on its usual terms that the Government would endorse such a policy. Consequently, negotiations were entered into with officers of the Bank of Canada, representing the Industrial Development Bank, and the company.

Q. What happened to those negotiations?

MR. NESBITT: Well, the place where this company needed help was in the first mortgage bonds. We were always confident that we could raise the

equity money, but in a project of this nature,
to get first mortgage money, you have got to have
an economic project that will compare favourably
with other securities that were on the market,
because you have got to place those first mortgage
bonds with investing institutions.

Now, the philosophy of the Bank of Canada was to give us help where we least needed it. They offered to buy from us \$70 million of convertible debentures and to leave the rest of the problem to us.

I might say that, rather reluctantly, we agreed to go along with this, provided it would solve our problem and, in examining whether it would solve the problem or not, we found that various producers did not wish to sell Trans-Canada gas if the company, through the exercise of the convertible option, could be controlled by the Industrial Development Bank. Consequently, the proposal, while, as I say, we had agreed to go along with it if it did solve our problem, did not solve our problem, and the negotiations were discontinued in April, 1955; I think it was April, sir.

over the traces was Gulf Oil, wasn't it?

MR. NESBITT: I believe there were other producers, sir. I have heard the name of

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Gulf mentioned as one of them.

THE CHAIRMAN: Q. You do know, do you not, Mr. Nesbitt?

 $$\operatorname{MR}.$$ NESBITT: I do know that Gulf is one of them.

MR. PATTILLO: Q. And what other producers do you know of who refused to go along under such a proposal?

MR. NESBITT: I would like ---

MR. COATES: Mr. Pattillo, I am not sure of others. The gas supply that we had allotted to us by the Province of Alberta, the Gulf Oil Company owned approximately one-third of those reserves and, if that one was not interested, there was not much use in asking anyone else.

Q. So far as the gas supply was concerned, the gas supply that had been allotted to you, Gulf at that time was in virtual control of the situation?

MR. COATES: Well, they owned about one-third of the reserves.

I might say that they have been very successful since that time in adding materially to their reserves and profits.

Q. Now, when this proposal of the industrial bank collapsed, then what was the next step, Mr. Nesbitt?

MR. NESBITT: A lot of head scratching,

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sir, at that point.

Q. Was it then that you lost your hair, Mr. Nesbitt?

MR. NESBITT: That was the end of it, sir.

It was evident to us that we could not proceed without a relaxation of the Government requirement to build this all-Canadian line to the eastern markets as a single project -- I have lost my thread here.

It was evident that we had to have a modification of that policy to finance, or we had to have some kind of aid to establish our credit, and we made various suggestions: one, we discussed the idea of building only to Winnipeg, initially, and having our sale at Emerson and, subsequently, to build the line east at a later date when we could establish the company's credit.

Q. That is something like the original Western concept?

MR. NESBITT: That is correct, sir.

Q. Yes?

MR. NESBITT: This all-Canadian line, however, captured the public imagination and it was subscribed to, I think, by all the parties, and it was a desirable thing for Canada and it was felt by the Government that they did not want

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to change that policy. It was considered to be in the national interest and, therefore, they did not wish to modify that policy.

Q. Now, when was the first proposal put forward that the Dominion Government build a part of the line, in the first instance, and who put it forward?

MR. NESBITT: That idea was developed by people in Mr. Howe's department.

MR. COATES: I will talk on this, Mr. Pattillo.

After we had gotten past the stages that Mr. Nesbitt has spoken of and had approached the Dominion Government with the thought of building to Winnipeg and then south and trying to get in business and create some credit and then go on east, when that was turned down by the Government a committee was then set up. The members were fellows, civil servants, who were in the Department of Trade and Commerce and, I believe, in the finance department, Mr. Harris' department, at that time, to study the situation and to see if they could come up with any ideas that might make it possible to continue the policy that had been laid down by the Federal Government that the line should be built all in Canada and all as a continuous line rather than a part and then an intervening period of years and then the

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remainder of it.

This committee that was established developed the idea of the Crown Corporation being established to construct and own a section of the line.

Q. Was there anybody on that committee representing the company, or was that committee solely represented by the Government?

MR. COATES: It was solely represented by the Government.

Q. So they proposed a section of the line be built and owned by the Government?

MR. COATES: Yes, sir.

Q. And as a result of that proposal an agreement was entered into in November, 1955, whereby the Canadian Government proposed the formation of a Crown Corporation to construct, what I call, the Northern Ontario portion of the line?

MR. COATES: Yes, sir, that is correct; 675 miles of the line in Ontario.

Q. That is the section which the Government is constructing today?

MR. COATES: Yes, sir.

Q. Now, in 1955, the Government having agreed to do this, were the troubles of the company over, or was there any consideration at that time of the Government making any advances to the company?

MR. COATES: There was no consideration at that time of the Government making any advances to the company. We thought, with this agreement and with this help, we would be able to sign purchase contracts and sales contracts that would be

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sufficient to enable us to finance the remainder of the project.

Q. It is just at this point that

Tennessee comes into the picture, too. You have the
agreement with the Government and Tennessee has come
in and acquired substantial shares.

MR. COATES: Yes, sir.

Q. What happened then? Perhaps let me put it this way: when did you find it necessary to approach the Government to see whether they would give you any further financial assistance?

MR. COATES: We did not approach the Government to see if they would give us additional financial assistance.

Q. Right.

MR. COATES: From time to time we discussed our problems with the Government. It became apparent in the spring of 1956, the exact date I do not recall right at this moment, I believe it was March; the time was growing near to the commencing of construction in 1956, if we were to commence construction—we had quite a lot of purchase contracts signed, some gas sales contracts, but not enough to get the financing completed to put the show on the road with construction in June, 1956. We so informed the Government of this position, hoping and expecting that they would suggest we keep our efforts going. We commenced construction in 1957

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but they, as we were, were anxious that the pipeline be started. So, Trans-Canada informed the
Government they did not have the money to do the
job, that it was confident, given time to do it,
it could arrange the financing and get the job
started, and that if the Government was anxious
and if they felt the line must be started in 1956,
then they would have to help us with some advance
funds.

Q. Yes.

MR. COATES: And the arrangements were then made whereby the Government would loan us, well, it was 90 per cent of the construction of the Western section, not to exceed \$80 million, the loan to bear interest; all of the shares of the company that were then outstanding were pledged.

Q. As security for the loan?

MR. COATES: That is correct, sir, and the company was to spend a specified quantity of money, or this 10 per cent of the cost of the Western section, prior to any draw-down from the Government.

- Q. And that put the show on the road?

 MR. COATES: Yes, sir, apparently.
- Q. In 1956, part of the line was constructed?

MR. COATES: The line was constructed; it was started in June of 1956. The pipe order that had been placed in 1955 -- Tennessee had guaranteed

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-- actually, the Government had agreed to the loan and the necessary legislation had been passed.

Tennessee assigned the purchase orders for the steel to Trans-Canada and deliveries were commenced. Shortly after commencing there was a steel strike, a general steel strike, in the United States starting about the first of July and continued for some several weeks, so that it was impractical to attempt to continue construction. At the time we were able to resume the delivery of the pipe, it was drawing toward the end of the construction season.

We laid the pipe as long as we could during that year and ceased to receive pipe that fall and winter, and stockpiled for commencing in 1957.

Q. I want to get, if I can, what the financial position was as of December 31, 1956.

MR. COATES: Do you mean the stock owner-ship as of that time?

Q. We have the stock ownership; we have dealt with that. That was 1,928,184 common shares that were outstanding. What were the liabilities and what did they consist of at that stage?

MR. COATES: Mr. Berry will talk about this.

MR. BERRY: Mr. Pattillo, if I could refer you to the prospectus again. The middle spread of that document, page 36-37, contains a consolidated binding of Trans-Canada and its

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subsidiary company as of December 31, 1956. I think that clearly sets forth the consolidated position which includes the accounts of Western Pipelines, a wholly-owned subsidiary. A balance sheet is supported by detailed statements including the consolidated summary of receipts and expenditures dated back to the incorporation of the company in March, 1951, up to and including December 31, 1956.

Q. At that time, in looking at page 37, the funded debt -- was that money, the \$43,750,000 -- was that money that had been loaned by the Dominion of Canada at that time?

MR. BERRY: Those are the funds that were advanced by the Crown Corporation under the terms of this agreement with the Government. That was the accumulated total at that time.

Q. And the 4 3/4 sinking fund debentures, \$5,350,000, was connected with the construction of the Western pipeline in the Province of Ontario?

MR. BERRY: That represents, virtually, the entire capitalization of that project.

Q. Up to that date you had spent on the main line running from the Province of Alberta, \$55,311,369?

MR. BERRY: That is the figure including all the preliminary services and engineering expenditures in regard to that date, some of which

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are applicable to the entire system to be allocated later to the entire line.

MR. PATTILLO: Mr. Chairman, this might be a good point at which to have the break.

THE CHAIRMAN: Yes, sir.

Gentlemen, we will have a recess for ten minutes.

--- A short recess.

THE CHAIRMAN: Gentlemen, we shall now resume the hearing.

First I want to apologize to you gentlemen for my lack of foresight in not realizing that the spotlight was right on you, as it was. I am very sorry about that; it was not intentional.

Mr. Pattillo, I believe you were going to go on chronologically past 1956?

MR. PATTILLO: That is right.

THE CHAIRMAN: Before doing so there are one or two questions I would like to ask. I do not just know who is the proper person to answer these questions but perhaps you could decide that among yourselves.

The option granted on May 28th, 1956, to Mr. Kernan ---

MR. COATES: Yes, sir.

THE CHAIRMAN: That apparently was after the financial arrangements had been made with Ottawa?

MR. COATES: It was after the financial arrangements had been made with Ottawa to loan us money to commence construction in 1956, yes, sir.

THE CHAIRMAN: And the same is true of the option granted in July, 1956, to Mr. Atkinson?

MR. COATES: Yes, sir, that is correct.

THE CHAIRMAN: I can understand the option to Mr. Atkinson because he was coming to serve the company as chairman of the finance committee

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without salary; is that correct?

MR. COATES: Yes, sir.

THE CHAIRMAN: In the case of Mr. Kernan, he was a partner, a limited partner, I think you said, in White, Weld & Company?

MR. COATES: Yes, sir, that is right.

THE CHAIRMAN: And you were negotiating at that time with respect to doing the financing?

MR. COATES: No, sir, they were not part of the American banking group at that time.

THE CHAIRMAN: Well, why would an option be given to Mr. Kernan? What had he done then or what was he going to do other than as a limited partner of White, Weld & Company, if he came into this financing?

MR. COATES: Well, I do not think he was representing White, Weld in the arrangements we made. Mr. Kernan has been a principal figure in the financing of quite a number of gas pipe lines in the United States, with ideas and plans to do such jobs. He has, of course, a very wide acquaintance in New York and in banking circles in New York and we felt it would be of advantage to us in doing our job serving us as a consultant in devising plans and trying to put into practice these plans for financing.

THE CHAIRMAN: Did he dictate that as a term of White, Weld assisting the company in its

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financing?

MR. COATES: I cannot answer that particular question; perhaps Mr. Nesbitt or Mr. Clarke, who were in the original group, could answer.

MR. NESBITT: To my knowledge, sir, no.

Mr. Kernan acted independently of the company
with which he is associated. He is a limited
partner in that company and he does consulting work
on his own. The Board felt because of his experience and because of the tremendous amount of
first mortgage that we had to place it would be
very desirable to have his advice and counsel
and placing power with institutions and the
arrangement was made with him as an independent
individual. Mr. Clarke can report when White,
Weld became associated.

MR. CLARKE: I believe White, Weld became associated simultaneously with Stone & Webster Securities Corporation not before the 1st of September, 1956.

THE CHAIRMAN: Well, then, in reality you gave this option to Mr. Kernan for his know-ledge and background and experience in the gas pipe line business rather than in the financial business, is that right?

MR. CLARKE: No, I believe his particular forte is the financing of natural gas transmission pipe lines. He had been

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the chief figure in the first real pipe line that was built for natural gas transmission, namely Transcontinental Gas Pipe Line, which had been built at the end of World War II. He had also been instrumental in the Pacific Northwest financing and in the El Paso Natural Gas expansion programme which was substantial and, of course, Tennessee Gas Transmission programmes after their initial financing. In other words, at about May, 1956, as I reconstrue the series of events, Trans-Canada had by then realized it could not proceed with the financing programme based on an Emerson market being included, due to the bog-down at the Federal Power Commission hearing. Consequently, it proceeded to restudy and assess the markets inside Canada, decided it was a good calculated risk to devise a plan of financing and proceeded with the financing based on no market outside Canada, with an expiration date of April 2, 1957, where they would pay back whatever had been advanced by the Government.

We just felt we had better go with our front line troops and that, I believe, as much as anything, was the reason the Board of Directors of Trans-Canada approached Mr. Kernan.

THE CHAIRMAN: April 2, 1957, was the repayment date, was it, under the contract with the Government?

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MR. CLARKE: I believe so.

THE CHAIRMAN: Well, then, these shares went to white, Weld, or half of them, roughly?

MR. CLARKE: That is my understanding, from my recollection of what Mr. Kernan told me when I asked him about that. That was a purely gratuitous thing on his part, that he had no understanding with White, Weld prior to making that step -- to do that step.

THE CHAIRMAN: Well, then, presumably, he did it because he was a limited partner, is that it?

MR. CLARKE: That could be a fair statement.

THE CHAIRMAN: Did Stone & Webster

Securities Corporation get any of those?

MR. CLARKE: No, sir.

THE CHAIRMAN: Or Lehman Bros.?

MR. CLARKE: No, sir.

THE CHAIRMAN: Thank you. Mr. Coates,
I think you said that Northern Gas contract with
Trans-Canada for the purchase of gas through
the Emerson take-off was cancelled in June of
1955?

MR. COATES: Yes, sir, that is correct.

THE CHAIRMAN: Because I think you said

April or May was the date in respect of which the contract ran?

MR. COATES: Yes, sir.

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THE CHAIRMAN: Was there any provision in the contract for its renewal by either party or both?

MR. COATES: No, sir, there was no provision for renewal. It was a contract that was subject to cancellation. There was no proviso for renewal there.

THE CHAIRMAN: But without its specific cancellation by either party it would have continued on?

MR. COATES: Yes, sir.

THE CHAIRMAN: What lay behind TransCanada's decision to cancel that contract? It was
Trans-Canada who first took the move to cancel the
contract, am I right in that?

MR. COATES: That is correct, sir.

Northern Natural had held a hearing in Washington
that was recessed, it was not carried to culmination,
and Trans-Canada had attempted -- well, they did
succeed in getting a further extension from the
Board of Transport Commissioners beyond April
30th, which at that time was the deadline.

After our permit from the Board of
Transport Commissioners an attempt was made with
Northern Natural Gas Company to extend the contract beyond that date even though there was no
proviso that such must be done. In discussions
with Northern Natural it would have been

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necessary for us to re-negotiate the price in order order to carry the contract forward. In April, the early part of April, of 1955 we had entered into a contract with Tennessee Gas Transmission Company for a short-term supply to commence servicing Eastern Canada. Because of that contract, after we were unable to carry on as we felt we should carry on with Northern, we contacted Tennessee, or rather discussed with them the possibility of their purchasing gas from us at Emerson. That was what prompted the cancellation of the contract.

THE CHAIRMAN: In other words you changed horses?

MR. COATES: Yes, sir, that is right.

THE CHAIRMAN: For reasons which you thought were sound?

MR. COATES: Yes, sir.

THE CHAIRMAN: Now, I am not sure that

I got from what has been said this morning, clearly,
just when the Hudson Bay Oil, British American Oil
and the Tennessee Gas Transmission Company came
into being as shareholders. Let us get this
straight. You have been speaking of Gulf of
Canada.

MR. COATES: That is now British

American. We can change the name as far as the record is concerned and speak of B-A which would

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be easier for us.

THE CHAIRMAN: Is there then a Gulf of Canada?

MR. COATES: No, it was Canadian Gulf Oil and they amalgamated; I do not remember exactly when it did take place, but it was after this time.

THE CHAIRMAN: Canadian Gulf was a subsidiary of the Gulf Oil Corporation of the United States?

MR. COATES: Yes, sir.

THE CHAIRMAN: And they held one-third of the acreage which you had reserved for gas in Alberta?

MR. COATES: Yes, sir.

THE CHAIRMAN: And that presumably has since become the property of B-A Oil?

MR. COATES: That is correct, sir.

THE CHAIRMAN: I am not clear just when Hudson Bay Oil, B-A Oil and Tennessee Gas Transmission came into the picture, if you look at page 32 of the prospectus, with the 327,790 shares each or 17 per cent each.

MR. COATES: Under the agreement:

that Trans-Canada entered into with

Tennessee Gas for the placing of the steel order,

previously mentioned, on November 1st, 1955,

Tennessee acquired the right to purchase a number

of shares that would make them comparable at least

..... with Canadian Delhi and the Western group. The other purchasers of shares, Hudson Bay Oil & Gas Company, Canadian Gulf (now British American) and Tennessee purchased the major portion of those shares shown on page 32 of the prospectus in February of 1956, being February 9, 1956. Hudson Bay was a holder of some shares prior to that time; Tennessee was a holder of some shares they bought between November 1st and January 1st of 1956; that is November 1st, 1955, and January 1st, 1956.





THE CHAIRMAN: That was confusing me because -- well, what I would like to know is, what the figure was that Tennessee Gas Transmission would have had to purchase -- the number of shares to bring them up to the holdings of the Canadian Delhi?

MR. COATES: Just a moment and I believe we can find that figure. There is, approximately, 500,000 shares.

THE CHAIRMAN: Approximately 500,000?

MR. COATES: If you would notice on the prospectus, page 32, Canadian Delhi owned 497,040.

The Western Group, as a group, owned that same quantity, so Tennessee would have had to purchase that quantity to have been an equal shareholder.

THE CHAIRMAN: I am still confused. If that is the listing, what happened to the Western Group shares?

MR. COATES: Well, I believe, sir, as a group the shares were distributed to the various concerns. The Western Group no longer continued as the Western Group. Mr. Nesbitt was one of the partners of the Western Group and, I believe, he is in a position to tell you more about that.

MR. NESBITT: That is correct. Ours were broken down into smallish holdings, so we were not a principal shareholder in comparison with these others; no individual was. We discontinued the

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Western Group as a group when these other interests came in.

THE CHAIRMAN: Then these principal share-holders totalled 76.77 per cent; the balance would be held by the individual shareholders who were part of the Western Group and to whom the shares of the Western Group had, prior to this date, been distributed. Is that correct?

MR. NESBITT: That is correct, sir.

THE CHAIRMAN: Then the option was really given, the right to purchase was given to Tennessee Gas Transmission, I believe, and then Gulf of Canada, as it then was, and Hudson Bay pried the shares loose from Gulf of Canada. Is that right?

MR. COATES: From Tennessee.

THE CHAIRMAN: From Tennessee.

MR. COATES: They entered into some sort of an agreement -- I was not a party to it and I cannot talk of my own personal knowledge of it.

THE CHAIRMAN: Is there anyone here who can do so?

MR. PATTILLO: Mr. Brown of Hudson Bay is in the audience. He is a director of Trans-Canada or was, at that time, president of Hudson Bay.

MR. McNEILL: That information is available and we can easily file with the Commission a series of agreements that were executed on the 8th

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and 9th of February, 1956, some of which agreements were simply between Canadian Gulf, Hudson Bay and Tennessee, and some of which included Trans-Canada, and some of which included Canadian Delhi and the Western Group. It was, in fact, on the 9th of February, 1956, a rondelais that resulted in these respective holdings of the various groups; Canadian Delhi Oil Limited, Hudson Bay Oil and Gas Company Limited, the British American Oil Company Limited, Tennessee Gas Transmission Company, shown on page 32 of the prospectus with the remaining shareholders constituting the Western Group and the remaining shares owned, not as a group, but individually. They had an agreement which was somewhat tempered to the original to have its share equal to Canadian Delhi. This resulted in 17 per cent to Tennessee Gas Transmission Company, and a similar amount to Hudson Bay Oil and Gas Company and a similar amount to Canadian Gulf, as it then was.

THE CHAIRMAN: I think the Commission is interested in this, and should be, in my opinion: these three companies, Hudson Bay, Tennessee Gas and British American Oil at this time, whatever their holdings may be now, but at this time held a total of 51 per cent of the outstanding capital stock, the voting stock of Trans-Canada Pipe Lines?

MR. McNEILL: That is right.

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THE CHAIRMAN: I think we would like to know why and how? What lay behind all this?

Tennessee Gas Transmission got the right to purchase, for consideration, inter alia, I suppose, all the steel -- getting the pipe. Was that all?

MR. McNEILL: Tennessee came into the picture, as Mr. Coates has described to you, sir, earlier than Canadian Gulf and earlier than Hudson Bay Oil and Gas but, with the exception of a small number of shares that Hudson Bay Oil and Gas did -- with the exception of a small number of shares that Hudson Bay Oil and Gas held as a late member of the Western Group.

THE CHAIRMAN: Was Hudson Bay a producer of gas in Alberta?

MR. COATES: Yes, sir, that is right.

THE CHAIRMAN: And you were committed to Hudson Bay to purchase gas from them?

MR. COATES: Yes.

THE CHAIRMAN: And was Tennessee, in any way, a producer?

MR. COATES: Not at that time, but have become so since.

THE CHAIRMAN: Then, this arrangement became, to the extent, at least, of 34 per cent, leaving Tennessee Gas out, 34 per cent of the stock ownership of the company went to your principal producers?



MR. COATES: That is correct.

THE CHAIRMAN: Who then ---

MR. COATES: You have Delhi also in there; they are producers also. I believe, sir, that Hudson Bay, Canadian Gulf, came into the picture as producers in an attempt to lend whatever assistance and whatever they could do toward getting the job completed and getting it right so they could start selling some gas. I believe, Tennessee Gas came into the picture in an effort to assist in whatever way they could to get the show on the road, so they could purchase gas.

THE CHAIRMAN: I will not quarrel with that. They helped, materially, with getting the show on the road with these holdings? Is that not correct?

MR. COATES: That is right.

THE CHAIRMAN: And, therefore, they stood to lose, substantially, if the deal proposed by Industrial Development Bank to lend \$70 million on convertible debentures went through because, in that way, their equity -- I do not know what the conversion rate was, but you can tell us -- but, in any event, their equity would be substantially diluted if the bank had completed its negotiations?

MR. COATES: The negotiations with Industrial Development Bank had all ceased long before these people came in; that transaction took place



in the early part of 1955, that is, the negotiations with the Industrial Development Bank. These people, Tennessee, came in in the latter part of 1955. The other two in the early part of 1956, a year after our negotiations with Industrial Development Bank had ceased.

THE CHAIRMAN: What option did Gulf of Canada, of which you spoke, or Mr. Nesbitt spoke, I think, and I asked you about that, I think, Mr. Nesbitt, what option did Gulf of Canada then have with Trans-Canada, because it was one of the primary factors in bracing their feet or, at least, they braced their feet, if I may call it that, against the Industrial Development Deal. How did they get into it if they were not shareholders?

MR. COATES: After the negotiations with Industrial Development Bank ceased and there was no arrangement made with Industrial Development Bank ceased and there was no arrangement made with Industrial Development Bank to borrow money or sell other subordinate debentures or anything else. We did enter into a contract to purchase gas from Canadian Gulf. That was in the fall, October of 1956.

MR. PATTILLO: 1956 or 1955?

MR. COATES: 1956.

THE CHAIRMAN: 1956?

MR. COATES: I beg your pardon, sir, 1955.

THE CHAIRMAN: 1955; so they braced their

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feet as a producer.

MR. COATES: Yes, sir. They were not a shareholder in Trans-Canada during the negotiations that were carried on with the Industrial Development Bank.

THE CHAIRMAN: So that, in reality, you get down to this: that the Gulf of Canada, a subsidiary of Gulf Corporation -- is that correct?

MR. COATES: Yes, sir.

THE CHAIRMAN: --owning various acreages, or whatever we call them, of gas in Alberta, were able to say to you and to the Industrial Development Bank that they would not go along with the deal which forced you out of business temporarily?

MR. COATES: Or could have forced us out of business permanently with the Industrial Development Bank being the principal stockholder of Trans-Canada and controlling Trans-Canada.

THE CHAIRMAN: Would have forced you out of business only because your producers, which were primarily oil companies, would have said, "We will not sell you any gas"?

MR. COATES: Well, sir, I do not believe our having done business with Industrial Development Bank would have forced us out of business. However, it would have put Trans-Canada in a position so that on conversion of the convertible debentures the Industrial Development Bank would have owned

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at a moment ago. That being so, Mr. Coates, I put it to you: what possible reason could Gulf of Canada, or any producer, have to object to control being in the Industrial Development Bank if that was the method that had to be used to finance the company? How did they acquire such a strong position?

MR. COATES: My experience with oil-producing companies is that they are all a very strong, free enterprise by themselves and do not like to do business with government, if they can -- as a partner of government, so to speak.

THE CHAIRMAN: I cannot understand how a company, even though it may be an oil company, holding rights to one of our natural resources in this country, could take the position that it would not sell gas to a company such as this because it was controlled by the Dominion Government?

MR. COATES: I am not connected with that company and, of course, have nothing to do with their policies. I believe that, perhaps, they are going to appear at a later date and maybe they could answer the question.

THE CHAIRMAN: I certainly hope they do and will. But have we the facts straight, regardless of what conclusions we draw, we have the facts

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straight?

MR. COATES: Yes, sir.

THE CHAIRMAN: Thank you very much.

Mr. Pattillo?

MR. PATTILLO: Q. Well, now, gentlemen, I would like to move on to the situation from
December 31, 1956 through the year 1957. First,
were any options granted to any person to acquire
shares in the capital stock of Trans-Canada during
the year 1957?

MR. BERRY: Yes, sir.

Q. To how many individuals or partners or firms?

MR. BERRY: A total of eight individuals.

Q. Were all those individuals associated with Trans-Canada as officers?

MR. BERRY: Yes, sir.

Q. Would you please give us ---

MR. BERRY: All of them are officers or key employees of the company.

Q. Will you give us the names of the persons and the position they occupied with the company and the date on which the option was granted and the number of shares to which they were entitled?

MR. BERRY: On February 11th, 1957, an option for 7,500 shares at a price of \$10 per share was granted to Mr. A.P. Craig. I believe that the option agreement with Mr. Craig had been filed in

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the binder of "Contracts Other Than Gas Sale Contracts".

Q. That agreement was dated the 11th of February, 1957?

MR. BERRY: That is correct.

Q. Mr. Craig's position with the company was what?

MR. BERRY: Mr. Craig is vice-president responsible for sales.

Q. Did Mr. Craig exercise this option in whole or in part?

MR. BERRY: He exercised it in two parts on May 22nd, 1957, to the extent of 2,500 shares, and on July 5, 1957, to the extent of 5,000 shares.

Q. Has Mr. Craig disposed of any of these shares?

MR. BERRY: Mr. Craig has advised me that he has disposed of a total of 4,500 of these shares; between May and July, 1957, that a large number of 3800 were disposed of, and in February, 1958, he disposed of 700, for a total of 4500.

- Q. Leaving him with 3,000 shares?
 - MR. BERRY: That is what he has advised me.
- Q. What is the aggregate price he has received for these shares?

MR. BERRY: For a total of 4500 he has received, approximately, \$170,000.

Q. In addition to Mr. Craig, in the same



binder, I find an agreement dated the 7th March, 1957, with Mr. Noel John McNeill. Who is Mr. McNeill?

MR. BERRY: Mr. McNeill is vicepresident, general counsel and secretary of the company.

Q. Under that, he was entitled to exercise an option to acquire 5,000 shares.

MR. BERRY: Yes, sir.

Q. At a price of \$10.

MR. BERRY: Yes, sir.

Q. Did Mr. McNeill exercise that option in whole or in part?

MR. BERRY: Mr. McNeill exercised that option, entirely, on May 30, 1957.

Q. Has he disposed of all or any part of the shares?

 $$\operatorname{MR}.$$ BERRY: Mr. McNeill has informed me that he has disposed of 3,000 shares.

Q. And for an aggregate price of what?

MR. McNEILL: I cannot answer that at the moment because my records are in Toronto and I am here; some of these shares were sold at \$36 and some at \$44, and it would be either the last days of May or the early days of June -- it is May.

THE CHAIRMAN: Can we not take it as part of personal remuneration?

MR. PATTILLO: Q. In addition to Mr.



Craig and Mr. McNeill, what other options were granted?

MR. BERRY: On September 12, 1957, the directors of the company approved a stock option plan for key employees of the company and satisfied the balance of the 50,000 shares; satisfied for this purpose and mentioned in the prospectus.

That would have been a balance of 37,500; of that balance the following options were granted under agreements dated September 12, 1957 at a price of \$29.28 per share.

Q. How did that price, on that date, compare with the then market price?

MR. BERRY: That, under the terms of the option plan, was a quoted market price in Toronto gathered from six different firms of dealers and averaged as to the share, in the granting of the option.

Q. And that was between several employees, key employees of the company?

MR. BERRY: A total of six.

Q. I do not think we need the names.

The financing of the company was done in February,

1957 and the prospectus relating to that finan
cing is dated February 13.

MR. BERRY: Yes, the date of the prospectus is February 13, being the date it was filed with the Securities and Exchange Commission in

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Washington and, concurrently, was filed with the proper Security Commissions in Canada. The actual date of the public offering was the following day.

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Q. That would be the 14th?

MR. BERRY: February 14th, St. Valentine's Day.

Q. The company really got a Valentine, didn't they?

MR. BERRY: The public did, sir.

Q. Now, I just want to ask this question and perhaps Mr. Nesbitt will answer it:

Prior to February 14th, to your knowledge was there any market in Canada for the shares of Trans-Canada, over-the-counter market?

MR. NESBITT: There may have been, sir. Some dealers will trade a security on an if-as-and-when basis.

The underwriting group that are shown here did not trade. As a matter of policy, we do not trade an issue prior to the offering, but there are dealers who will quote the market. I don't know that it did happen in this case, but it is quite conceivable.

Q. Just in connection with that Mr.

Nesbitt, I think you were also associated with the

Westcoast Transmission offering?

MR. NESBITT: Yes, sir.

Q. Do you know whether or not, in connection with that offering, there was any overthe-counter market for the shares in Westcoast
Transmission before it was offered to the public?

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MR. NESBITT: I believe there was, sir.

I heard it said that there was an over-the-counter
market in that, but whether there was in Canada or
not I am not sure.

Q. Can you tell the Commission where it could obtain evidence of over-the-counter transactions in both Trans-Canada and Westcoast Transmission before the dates on their offerings?

MR. NESBITT: I don't think I could answer that right now, sir. I think we could make inquiries as to what dealers might have traded in an over-the-counter way and have them called as witnesses, but none of us who were directly associated with this financing, as I say, as a matter of policy, trade in issues prior to the public financing.

Q. You see, I happen to have personal knowledge of an over-the-counter price of more than \$20 in Trans-Canada in January of 1957, and I was wondering whether that was a general price that was throughout Canada, to your knowledge, or whether it was just in an isolated area.

MR. NESBITT: I would say it was an isolated area, sir. We did not make this offering until February 14th.

Now, in January, whoever was trading would not even have known what our final plan was. How could they deliver shares?

Q. Well, will you make inquiries, Mr.

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Nesbitt, and see what you can get for us as to over-the-counter prices in both these stocks before their issues were available to the public?

MR. NESBITT: I could make inquiries along those lines, sir, but I don't know how realistic that situation is.

How could a dealer, although they will quote a market, give you a price of \$20 a share in January, when he does not even know we are going to issue shares? In fact, when we came to the public offering, we did not issue shares, as such; we sold units, debentures, with shares attached to them and they were not attached for a period of months.

THE CHAIRMAN: Maybe the dealer got stuck.

MR. NESBITT: That is quite possible.

THE CHAIRMAN: But we ought to be able to find out, Mr. Nesbitt, what Mr. Pattillo wants.

They would sell them on a basis of delayed delivery over the counter. Perhaps there were some people who would know what the over-the-counter speculation was prior to this issue and prior to Westcoast's issue. In your experience, you know that is done.

MR. NESBITT: There are dealers who will call an over-the-counter market. I have never dealt in shares prior to the public offering and I do not know how realistic that market is.

That is why I have been a little bit vehement on this point as to how realistic this market and the state

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is that is traded before an issue comes to the market.

MR. PATTILLO: Q. Well, you see what you can find out for us.

MR. NESBITT: Very good, sir. Could you disclose the market that was quoted to you, to me?

MR. PATTILLO: You know, Mr. Nesbitt, I am here to ask questions ---

--- (Laughter)

MR. PATTILLO: Q. Now, would you please, Mr. Nesbitt, or Mr. Clarke, would you please explain to us the financing that was covered by this prospectus and exactly the events leading up to it and what happened, showing the percentages that the U.S. investing took in each instance and the percentages that the Canadian public took?

MR. NESBITT: As soon as we had sufficient purchase and sales contracts to establish that we could support securities in a manner that would be interesting to investors, we designed -- Mr. Kernan, frankly, designed this capitalization, which was accepted by the finance committee of which we have explained Mr. Atkinson was the chairman.

The original concept was that we would issue \$144 million of first mortgage bonds and \$90 million of so-called units, which would consist of \$60 million of debentures, with \$30 million of

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common shares at \$10 a share.

The Canadian underwriters proceeded to approach the investing institutions in Canada, and the United States underwriters proceeded to approach the investing institutions in the United States, both with the intent of selling \$144 million, with priority to the Canadian institutions.

That is, the Canadian market, it was agreed between the U.S. and Canadian underwriters, would be given all it would take.

My estimate at that time was that we could place about \$25 million of first mortgage bonds in Canada. We turned every stone, I think, that was in the path, and I know our associates in the States did the same thing, and the market conditions at that time were not very receptive to this issue. In point of fact, we were able to sell only \$94 million to investing institutions.

The Suez crisis had taken place and we were a pretty desperate group of chaps at this point, and we persuaded the group of shareholders who have been sponsoring this company to take approximately \$10 million of these first mortgage bonds on a prorated basis.

That brought us up to \$104 million and

Mr. Kernan was able to arrange a bank loan with three

United States banks for \$20 million, secured by first

mortgage bonds.

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That brought us up to \$124 million, including the bank loan.

So we, as I say, covered the waterfront and that was the limit of our ability to place first mortgage bonds. We made up the difference by adding to the units. We increased the unit sale to \$112 1/2 million.

At the time that we were having this difficulty with the first mortgage, we told our associates in the United States that we thought we could place, in Canada, approximately \$60 million of the original \$90 million which we were proposing to raise, in the form of units at that time and, subsequently, when we raised the sum to \$112 1/2 million, we advised our associates that we felt we could handle \$81,250,000, I think was the figure, and that is how the issue was marketed: \$81,250,000 in Canada;

Would you like me to disclose the sales of first mortgage bonds in the two markets?

Q. Yes, if you would just tell us.

MR. NESBITT: We placed, in Canada, but not all in Canadian dollars, we offered the institutions the opportunity to buy either Canadian or U.S. pay, and we placed in Canadian institutions and including the shareholders who took first mortgage bonds in Canada, \$32,860,000 and the United States placed, including the bank loan, \$91,140,000,

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for a total of \$124 million, including the bank loan.

Of Canadian pay, there was \$23,010,000 and, in U.S. pay, \$80,990,000. That is exclusive of the bank loan, which, of course, was U.S. pay as well.

Q. Will you explain to us the significance of the note purchase agreement made with certain shareholders and referred to on page 33 of the prospectus? That is most unusual in such a financing, isn't it, Mr. Nesbitt?

MR. NESBITT: It is; and it was uncomfortable, too.

In spite of what we considered a very good project and very good presentation to the investing institutions, they still felt that there was a real hazard in interest payments in the early years, and they invited us to show our confidence by guaranteeing the interest for the first couple of years; and we were unable to sell our first mortgage bonds without this guarantee.

We were able to limit it to \$21 million.

Q. And the companies are set out on page 33 of the prospectus as to the proportion of the guarantee in which they are severally liable, is that right?

MR. NESBITT: This is a prorated division of that, sir, according to the shareholdings of this

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corporate entity.

Q. Well, what is it? Is it a joint and several liability? Could any one person in this group be called upon to pay the whole amount of the interest?

MR. NESBITT: I am relieved to say no, sir; it is several.

Q. And even if those persons listed there disposed of their holdings, are they still severally liable to the extent shown here?

MR. NESBITT: Yes.

Q. For example, Tennessee Gas Transmission Company, according to page 33, has a 17 per cent liability to the extent of \$3,570,000. I understand that Tennessee Gas Transmission Company, according to the newspaper, has disposed of its holdings in Trans-Canada, is that correct?

MR. NESBITT: I believe that is correct.

MR. McNEILL: That is correct.

MR. COATES: That is correct.

Q. Nevertheless, it would still be on this guarantee to the extent that I have mentioned?

MR. COATES: May I answer that?

Q. Yes.

MR. COATES: And elaborate somewhat on it?

Q. Yes.

MR. COATES: It is my understanding they have disposed of this obligation to the Home Oil

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Company. However, should the Home Oil Company not be able to perform, then Tennessee Gas is still liable.

Q. In other words, as between the holders of securities, the company has not been able to avoid its final liability but it has attempted to pass it on to Home?

MR. COATES: That is correct.

Q. And do you know whether or not that also applies to the shareholdings of Hudson Bay Oil and Gas Company Limited which, I understand, has also disposed of its interest?

MR. COATES: We have been advised that that is so.

THE CHAIRMAN: Q. Disposed of its interest also to the Home Oil?

MR. COATES: Some part of it, sir. I don't know how much.

MR. PATTILLO: Q. Now, would you explain to us about the various closings that have occurred under this original financing and how many closings still remain, when that will occur and the quantities involved?

MR. BERRY: Mr. Pattillo, the equity closing took place on February 26th, 1957, at which time proceeds from the sale of the units was received by the company in a gross amount of \$112 1/2 million.

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Now, in connection with the sale of the bonds and of the bank loan, on page 25 of the prospectus and also in Schedule A to the bond purchase agreement, which I understand is filed as well as the financing documents, is set forth the schedule of the sale of the Canadian and U.S. series bonds, with the first one at that time scheduled to take place on June 3, 1957, which actually took place a few days later; the second on September 3, 1957, which actually took place towards the end of August, and the schedule for 1958 is on May 1st and August 1st, a total of four bond closings.

The detailed amounts involved are shown on page 25 of the prospectus.

Q. Mr. Nesbitt, would you or Mr. Clarke explain a little more clearly about this bank loan, the reasons for it ---

MR. BERRY: I should add to what I have said that the amounts on page 25 total \$104 million and, added to that, would be the \$20 million bank loan, which is taken up at these four dates in the same proportion as the bonds were taken up.

Q. As I understand it, you were not able to dispose of these additional bonds so a bank loan was arranged instead, and the bonds you had hoped to sell were put up as collateral for the loan?

MR. NESBITT: That is correct, sir.

Q. Would you explain the significance

of that in the company's financial structure, the difference it means in not being able to dispose of the bonds and having the bank loan instead?

I didn't notice the time, Mr. Nesbitt.

Perhaps we can break off now for lunch and resume with this question afterwards.

THE CHAIRMAN: The Commission will now adjourn until 2.00 o'clock this afternoon.

----Whereupon the hearing adjourned at 12.15 P.M., until 2.00 P.M.

---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Mr. Pattillo, before you request the answer from Mr. Nesbitt, I think it was, to your last question this morning, I did not have a chance to speak to you during the luncheon break, but I would like to pursue that path of inquiry that I started this morning with Mr. Coates and Mr. Nesbitt with respect to Gulf Oil from the point of view of the Hudson's Bay Oil Company and Tennessee Gas Transmission Company. I wonder if you and Mr.McNeill could get together, perhaps later this afternoon -- I don't know what the documents which Mr. McNeill spoke of this morning will show -- but I think the Commission should have the evidence brought before it which would indicate the principal shareholders of Tennessee Gas Transmission and of Hudson's Bay. We would like to pursue that a little further and I will leave it to you and Mr. McNeill to get the proper witnesses before us, if they are not here.

MR. PATTILLO: Thank you, Mr. Chairman.

Q. Mr. Nesbitt, you were just going to explain the significance of the bank loan and what it meant to the company as opposed to its selling the bonds which it put up as collateral.

. .

MR. NESBITT: With your concurrence, I would like to ask Mr. Clarke to answer this question, sir, because he is closer to that negotiation.

MR. CLARKE: Mr. Pattillo, I don't want to make a speech but I wanted to get the facts in connection with the placement of the bank loan firmly and correctly placed.

The original financing plan -- which, incidentally, was one of the things we hired Mr. Kernan to do -- involved \$144 million in first mortgage bonds. At the time we started placing those bonds and getting indications of interest from institutions, we went about it in a usual way, I believe, for a large issue of this size, on a blueprint company, namely, a construction project, basically, and you look for a leader. The other principal thing that the finance committee of Trans-Canada hired Mr. Kernan to do was to assist in the placement of the senior money. More through his efforts than anyone else's, Trans-Canada was able to obtain an indicated interest of \$40 million of first mortgage bonds from the Metropolitan Life Insurance Company.

- Q. How much, Mr. Clarke?

 MR. CLARKE: Forty million dollars.
- Q. Did they ever consider taking any higher figure?

MR. CLARKE: We asked them if they would

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go higher and they said, if they did, it would be only perhaps another \$5 million. It did not go higher.

time in late September, I believe -- from that point on, we then, as a result of a previous invitation extended by Lehman Brothers, White, Weld and Stone & Webster Securities to join with us in acting as agents for the company in the placement of the bonds and to participate with us as comanagers in the underwriting of the units, the three, Lehman Brothers, Stone & Webster and White, Weld, proceeded to contact other major institutions in the United States, and one of the problems was not only the placement but at what rate.

We started off with 4-3/4 per cent in the initial contacts with Metropolitan. The money market fell out of bed over the next two or three months and we ended up with 5-1/4 per cent, although the Metropolitan said they would go at 5 per cent if we could get the rest of the institutions in the United States to do likewise.

Now, we come down to the point of taking stock -- and I don't know whether this would be in October or November -- and we decided that we could not do \$144 million. It looked, however, from people who still had not said no and were still

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considering and had not said no or yes, that we might be able to do \$129 million.

Another few weeks go by, and, in the meantime, we had been to the Board of Transport Commissioners in Ottawa for renewal of permit, or extension of permit, and then we realize we cannot even do even \$129 million and, thinking and casting about one day on the plane back from Ottawa, or Toronto, we suddenly lit upon the idea of let's try to place these bonds — to what extent we could, we did not know — with banks, on a 5-year bank loan basis, with the first mortgage bonds to be security.

It turned out that we could, to the tune of \$20 million, and that is why we ended up with the actual capitalization and why the bank loans came into being.

Q. So the effect of it is that, rather than having a long-term loan to the extent of \$20 million, you got a five-year short-term loan?

MR. CLARKE: Right; with, obviously, if those bonds are not permanently placed by the time five years expires, you face re-negotiating a bank loan or paying it off by issuing additional first mortgage bonds to take care of it.

I might say negotiations are pending right now so that, of the bank loans taken down, namely, \$7,262,000, if my memory is correct, we

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will place permanently, with an institution, \$7 million of those bonds which are now security to a like amount of bank loan

Q. Well, in the light of what you have told us about the difficulties you have had in your proposed financing and the changes that you had to make to bring it about, getting the moneys you desired, would it be fair to say that this plan would have had no hope of success if it had not been for the Government agreement to build part of the line?

MR. CLARKE: I think it would. I am not sure -- it turned out that the agreement that was made with the Government is as it is, whether it was that or something else; but I do think that is a fair statement. It immediately took away from the company and the underwriters and its agents for placing bonds the necessity of finding approximately another \$125 million somewhere.

Q. And would it be fair to say that, even with the agreement of the Government to build part of the line, the plan still would not have been a success if the Government had not given the short-term loan in 1956?

MR. CLARKE: * No, I don't think I follow.

That is why I said "No." I don't think I quite

follow your line of reasoning.

Q. You think that all the short-term

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loan did was enable the company to start its operations a little sooner?

MR. CLARKE: That's right; basically, that is exactly what it did.

Q. But you don't think that that financial assistance from the Government in any way enabled you to sell the securities more easily to the big investors in the States?

MR. CLARKE: Oh, no. That \$80 million limit that was arranged with the Government was nothing but borrowing a little time. I think, if anything, it may have brought Trans-Canada to the realization that they just had to go ahead on Canadian markets and find, somehow, a plan of financing and consummating it before April 2nd of the following year.

Q. Whether they could get a permit to go through Emerson or not?

MR. CLARKE: That is right. They had already -- the original group had already put \$7 million or \$8 million into it and, if it had not been for the additional \$7 million or \$8 million which came in from Tennessee and Canadian Gulf and Hudson's Bay, they wouldn't have had the money to even put up their 10 per cent in making that arrangement with the Government, unless they had gone somewhere else and got it.

Q. Would this have been a much easier

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thing to sell if the permits to export and import at Emerson had been achieved before the financing?

MR. CLARKE: I believe so.

Q. That was the reaction you got from the big private investors whom you were seeking to interest into going into the matter?

MR. CLARKE: Yes, it comes right down, amongst other things, to a simple matter of earning the interest on the senior debt by having a 200 million a day load going through on a high load factor, instead of having to end up with an income note.

you, Mr. Clarke, that as and when a permit to import at Emerson was going to be obtained was something that nobody could forecast?

MR. CLARKE: It became obvious to me on the opening day of the hearings which finally took place in February of 1956, after delays, some expected and some not, whether the hearings might have started as early as November of 1955.

Was the reason that this permit was being indefinitely postponed the fact of the opposition of Northern Natural Gas and its associated companies?

MR. CLARKE: I believe Northern Natural Gas is one of the intervenors who opposed. It was not just Northern Natural; it was not because

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of Northern Natural. It was just the name of one of three or four companies who opposed it.

Q. Now we get by the period of financing and we are at the present day, today.

Looking at page 30 of the prospectus, how many of the Board of Directors disclosed on that page, the names of which we went over this morning, have resigned as directors of the company?

 $$\operatorname{MR.}$ COATES: If I may, Mr. Pattillo, while we get the information.

There have been three resignations from the list shown in the prospectus.

Q. Tho are they and when were the resignations received?

MR. COATES: Mr. H. R. Milner, January 23, 1958.

Q. Yes?

MR. COATES: Mr. Gardiner Symonds,

June 12, 1957, and Mr. R. C. Brown, August 15, 1957.

When Mr. Symonds resigned, he was replaced on the Board by Mr. O. W. Ward, who is a vice-president of Tennessee Gas.

Mr. Ward resigned from the Board on November 7, 1957.

Q. Tho replaced him?

MR. COATES: Well, there were three resignations -- well, I don't know who replaced who, exactly.

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Q. Perhaps I could put it this way: did any person from Tennessee come on the Board to replace Mr. ard?

MR. COATES: No, sir, and no one came on the Board to replace Mr. R. C. Brown of Hudson's Bay when he resigned; that is, no one from the Hudson's Bay Company.

Mr. Milner from the group that he represented?

MR. COATES: No, sir.

Q. Now, who are the three new directors? $\text{MR. COATES:} \quad \text{There are only two, sir.}$ There is still a vacancy of one.

The two new directors are R. A. Brown, Jr., who is President of the Home Oil Company, who was elected on November 7, 1957; and Mr. G. A. Gaherty, who is President of Calgary Power Company, elected January 23, 1958.

Q. Did these gentlemen who have resigned from the Board of Directors .give any reason -- taking them one at a time, Mr. Gardiner Symonds, did he give any explanation as to why he was resigning?

MR. COATES: He resigned at the time to be replaced by a nominee from his company, he being president and director and chief executive officer of Tennessee Gas and its various associated and affiliated companies, giving the explanation

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that he did not have time to devote the time required to Trans-Canada.

Q. So he was replaced by Mr. Ward. Did Mr. Ward give any explanation as to why he resigned?

MR. COATES: Well, he resigned when Tennessee disposed of their interest in Trans-Canada and no longer had any financial interest in the company and he got off the Board at that time.

Q. When did Tennessee dispose of its financial interest?

MR. COATES: Just a moment, sir. I believe I will let Mr. Berry answer this particular question. He knows these figures.

Q. Thank you.

MR. BERRY: This happened over a period of time, Mr. Pattillo, during 1957.

On June 11th, Tennessee disposed of 100,000 shares. On that October ---

Q. On the market or in private sale?

MR. BERRY: I am not sufficiently

acquainted with the transaction. I understand -
I am not certain.

Q. Right.

MR. BERRY: I have before me a summary of the movements which took place in the shares of stock which were lodged pursuant to the voting

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trust agreement and it indicates that 100,000 were withdrawn on June 11th, 1957; that 189,227 shares were withdrawn on October 29th and a balance of 38,563 shares were withdrawn on November 20th. I believe that that totals 327,790.

Q. Now, they had all of those shares in the voting trust. Did Tennessee acquire any other shares after the shares went on the market, that you have any record of?

MR. BERRY: Not that I have any knowledge of.

Q. Do you know how much they received for these 327,790 shares, in the aggregate?

MR. BERRY: I have no direct knowledge of that, no, sir.

Q. Well, we will try to get at it in another way, then:

What was the market price of the shares on June 11th?

MR. BERRY: Mr. Nesbitt has some information on market prices. Possibly he could tell you.

MR. NESBITT: I can get June llth for you. I haven't got it here, but I have June 21st. At May 30th and June 21st -- this is an over the counter market and there is not readily available on a list, like there would be on a listed stock

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quotation, figures available; we have to go back to our own contracts, and I have selected certain days and I missed the ones you are looking for, sir, but on May 30th it was 40 and on June 21st it was $42\frac{1}{2}$.

I think one could assume it was in that range on June 11th.

Q. And on October 29th?

MR. NESBITT: I can give you a little closer this time. I can give you the 25th, when it was $19\frac{1}{2}$; and on November 22nd, it was 23, so it would be in the range of 19 to 23; probably nearer $19\frac{1}{2}$.

Q. And on November 20th?

MR. NESBITT: I can give you the 22nd.

Q. Yes?

MR. NESBITT: 23.

Q. Now, were those shares withdrawn from the voting trust and are still outside the voting trust?

MR. BERRY: Yes, sir.

Q. Hudson's Bay Oil and Gas Company Limited, when did it dispose of its holdings?

MR. BERRY: Reading from the same record, Hudson's Bay disposed of 95,000 shares on July 25th, 1957; 194,227 shares on August 14th, and .38,563 shares on November 20th. I believe that adds to 327,790.

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And do you know to whom those shares were sold?

MR. BERRY: No, sir, I have no correct knowledge of that.

Q. Can you give us the prices?

 $$\operatorname{MR}.$$ BERRY: We can give you the approximate prices, similar to the other dates.

MR. NESBITT: July 5th was $39\frac{1}{2}$; July 26th was 37-3/4.

Q. And August 14th?

MR. NESBITT: August 23rd was 31.

Q. November 20th; we have already had that.

MR. NESBITT: The 22nd was 23.

MR. BERRY: Mr. Pattillo, I could augment the details of this. Of the second disposal of 194,227 shares, there came back in, on November 4th, 94,227 shares, which amount were subsequently disposed of on January 28th, 1958, that amount being 94,227 shares.

Q. On what date?

MR. BERRY: January 28th, 1958.

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And have you got a price for that date?

MR. BERRY: January 28, no, sir. I can give you the price range in the month of January. It was listed then and it ranged from $26\frac{1}{2}$ to $20\frac{1}{2}$ in the month of January.

Now, were these shares of Hudson's Bay Oil & Gas Company withdrawn from the voting trust agreement, too?

MR. BERRY: Yes, sir.

Q. Have there been any other shares that were put into the voting trust agreement other than the ones of Hudson's Bay Oil & Gas Company and Tennessee Gas Transmission Company that have been withdrawn?

MR. BERRY: Yes.

Q. Whose were they and what was the amount, when were they withdrawn and what information have you regarding them?

MR. BERRY: First of all, Mr. Pattillo,
I think I should mention a transaction within the
voting trust which resulted in a redistribution of
some of the holdings within the voting trust.
This results in reducing the holdings of Canadian
Delhi Oil by 57,000 -- I am sorry, I have this
reversed, Mr. Pattillo. This is an option to
Canadian Delhi from Hudson's Bay, British American
Oil and Tennessee. It is also in favour of other

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members of the Western group. This was a part of
the agreement between the various parties at the
time that Tennessee, British American, Hudson's
Bay came into the picture and was effected on
November 20th, 1957. Now, all of those transfers
took place within the voting trust.

Q. Well, let us have them.

MR. BERRY: First of all, the three companies, Hudson's Bay Oil & Gas, British American Oil Company, Tennessee Gas Transmission, each relinquished 38,563 shares; each released that amount. This resulted in additions to the holdings of the Canadian Delhi in an amount of 57,845; the International Utilities, 19,100; Osler, Hammond & Nanton, 8,202; to N. T. Investments Limited, 12,691; to Wood, Gundy & Company Limited, 12,691; to Calgary and Edmonton Corporation, 5,160, and that should add to the equivalent of three times 38,563.

I have not been keeping the arithmetic on this.

 ${\tt Q.} \qquad {\tt We will assume it does, Mr. Berry,}$ for the moment.

MR. BERRY: Now, I can give you ---

Q. Perhaps, could you do this: with that shift amongst the group that were in the voting trust, was there also a corresponding shift undertaken to provide for any deficiency in interest up to the aggregate amount of \$21 million?

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MR. BERRY: No, these transfers of shares would not affect the commitments of the various parties to the note purchase agreement.

Q. All right. Can you tell us, if those shifts were concluded, what the percentage holdings were of each of the companies that were in the voting trust?

MR. BERRY: We have not yet completed the answer to the question of what went out of the voting trust which you originally asked me. May I finish?

Q. Will you do that, please?

MR. BERRY: This record indicates

Canadian Delhi disposed of 12,000 shares on

December 2nd, 1957, and, I believe, those shares

went out of the voting trust.

Q. Will you give us a price for December 2nd?

MR. NESBITT: December 2nd, sir?

Q. Yes.

MR. NESBITT: I am awfully close to that
-- November 22nd and December 27th. On November
22nd the price was 23 and December 27th the price
was 20. I think it would be a fair assumption
to suggest it would be between those two figures.

Q. Now, whatever transactions took

place regarding these shares in the voting trust--
MR. BERRY: We come now to International

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Utilities.

Q. Yes?

MR. BERRY: In addition to their original deposit they added, on March 15, 1957, 16,069 shares and they disposed of 92000 shares on May 1, 1957, and 42,447 shares on May 31, 1957, and 9,000 on June 7th, 1957. I have already mentioned out of the redistribution on November 20th they acquired 19,100 which they continue to hold and that is the balance of their holding in the voting trust.

Have you any information as to where they got the shares on March 15th; whether they bought them on the market or where they came from?

MR. BERRY: This number of shares, coupled with others, which we are coming to, represent the shares of International Utilities and other members of the Western group who had an option from Canadian Delhi, which shares were deposited with the Montreal Trust Company for a considerable period of time and released to this company under the terms of that option agreement on this date of March 15th.

Q. At what price?

MR.BERRY: This is the option agreement we entered into at the time of the joining together of the Canadian Delhi and Western group in 1954 and

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was designed to equalize the holdings of all the parties concerned and the price involved was \$8 per share.

Now, let us see if we have any prices in the vicinity of May 1st.

 $$\operatorname{MR}_{\bullet}$$ NESBITT: May 10th is the nearest I have to that, a price of 27.

And have you a price prior to May lst?

MR. BERRY: April 5, it is 29.

Q. And May 31st?

MR. NESBITT: April 26th it was 26, which is a closer date.

Q. Have you anything close to May 31st?

MR.NESBITT: May 24th, $36\frac{1}{2}$.

Q. And any date following May 31st? MR. NESBITT: June 7th, $42\frac{1}{2}$.

Q. So there is a big rise right there?

MR. BERRY: I forgot what the first date

was.

Q. May 24th it was $26\frac{1}{2}$.

MR. BERRY: $36\frac{1}{2}$.

Q. $36\frac{1}{2}$, I am sorry. What was the date you said it was 42?

MR. BERRY: $42\frac{1}{2}$ on June 7th. I just found I have that date. I gave you one a little further away from that before.

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Q. June 7th, we are right on the nail. What about Osler, Hammond & Nanton?

MR. BERRY: Their share of those options from Delhi amounted to 16,069 shares and my record indicates, for some reason, theirs came in on June 26th, 1957, although the entries for some of the others related to the same option came in on March 15th.

Q. However, they came in at the price of \$8?

MR. BERRY: That is right. In addition, they had this transfer from the three companies,

Tennessee Gas Transmission Company, British American
Oil Company and Hudson's Bay Oil and Gas Company
on November 20th, so they presently have a balance
of 58,783.

Q. They have not disposed of any of their holdings, then?

MR. BERRY: No, sir.

Q. N. T. Investments Limited?

MR. BERRY: Their share of the March 15th transaction is 10,712 and their share of the November 20th transaction I have already given you. They withdrew 2,000 shares on January 2nd, 1958, leaving them with a balance of 32,627 shares as of the end of January, 1958.

Q. Have we a price for January 2nd?

MR. NESBITT: I can only give you the



price range for that month, sir. I could get that. The price range, however, for the month was $26\frac{1}{2}$ to $20\frac{1}{2}$; on December 27th, just a few days earlier, the price was 20.

Q. Wood, Gundy & Company Limited?

MR. BERRY: Wood, Gundy & Company Limited,
their share of the March 15th transaction, 10,712
shares. I have already given you the figures
for the November 20th transaction. They presently
have a balance of 108,322 shares.

Q. No disposal?

MR. BERRY: No, sir.

Q. Calgary and Edmonton Corporation?

MR. BERRY: Their share of an earlier transaction which we hear now is June 26th, 5,357 shares, and I have already given you the figures for the November 20th transaction so they presently have a balance of 43,877 shares. I might say, the present balances I have given you are as of January 28th, 1958.

Q. I am sorry, Mr. Berry, my mind is on something else and I missed those last couple of dates.

MR. BERRY: I am just saying all of the balances, the present balances I have given you are computed as of January 28th, 1958. In other words, I do not have a record of transactions that may have taken place subsequent to that.

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Q. Power Corporation?

MR. BERRY: Power Corporation -- here, I would like to go back and indicate that the first disposal I mentioned on the part of Hudson's Bay Oil and Gas Limited was 95,000 shares which, I believe, was indicated went out of the voting trust.

Q. And then came back in, you said?

MR. BERRY: No, that was another quantity which came back in.

Q. Right.

MR. BERRY: Their first disposal of 98,000 shares was, actually, transferred or sold to Power Corporation of Canada on September 23rd so that,

Power Corporation presently has a balance of 137,500 shares within the voting trust.

Q. No disposals?

MR. BERRY: No, sir.

Q. Canadian Power and Paper Securities
Limited?

MR. BERRY: Their holding, original deposit, 20,000 shares, remains intact.

Q. And Nesbitt, Thomson?

MR. BERRY: Nesbitt, Thomson, on June 11th, 1957, withdrew 8,765 shares leaving a balance of 6,430 shares.

Q. What was the sale price on that date, June 11th?

MR. NESBITT: June 7th, $42\frac{1}{2}$; July 5th,

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Q. How many shares are presently in the voting trust?

MR. BERRY: A total of 1,254,761.

Q. Mr. Berry, will you please explain to me, in the light of what appears in the prospectus on page 32, where these words appear:

"Certain of the shareholders of the Company, "including those named above, who own in the "aggregate 1,904,417 common shares (constituting "98.77% of the outstanding common shares of the "Company) propose, prior to the issuance and "delivery of the Units offered hereby, to "enter into a Voting Trust Agreement, dated as "of January 1, 1957 and terminating December "31, 1966 and to deposit the shares owned "by them under such Voting Trust Agreement. "The Voting Trustees named in the Voting "Trust Agreement are T. H. Atkinson, R. C. "Brown, E. D. Loughney, H. R. Milner, A. "Deane Nesbitt, Frank A. Schultz and William "W. Witmer. Shares owned by the shareholders "who are parties to the Voting Trust Agreement "are to be deposited with the Voting Trust "Trustees in exchange for Voting Trust "Certificates, as soon as such shares have "been released from the escrow provided for "in an agreement dated May 8th, 1956 between

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"Her Majesty the Queen in right of Canada, "all the shareholders of the Company and the "Deputy Minister of Finance of Canada, as "Trustee. The agreement of May 8, 1956 "provides that such shares are in effect to "be held in escrow by the Deputy Minister of "Finance as security for the performance by "the Company of its obligations under the "Indenture of Mortgage with the Crown Corpora-"tion referred to under the heading 'Financing "Program and Proposed Capitalization'. The " 5% Mortgage Bonds issued by the Company "to the Crown Corporation will be paid in "full and such Indenture discharged at the "time of the issue and delivery of the Units "offered hereby, and thereupon the shares "held in escrow by the Deputy Minister of "Finance will be released."

But, in fact, the 5% Mortgage Bonds owned by the Crown Corporation were paid off.

MR. BERRY: That is correct.

Q. They were, in fact, paid off out of the proceeds of the equity financing and 1,904,417 common shares were deposited in the Voting Trust?

MR. BERRY: Yes, they were.

Q. How did any of them get out?

MR. BERRY: Well, Mr. Pattillo, I

believe that the voting trust agreement has been filed as part of the financing background. There was prefaced in that agreement that any sales on the part of the members of the voting trust to a party outside of the voting trust, we could call that a third party, that any sales to a third party could permit the withdrawal of such shares from the voting trust.

MR. McNEILL: Page 8 of the voting trust agreement, paragraph 10, which is the second last document in the volume.

Q. This is a voting trust agreement dated January 1st, 1957, appearing in the bundle of documents furnished by the company at my request and called "Financing Documents".

MR. BERRY: That is correct.

a voting trust and issuing voting trust certificates if the parties who took the voting trust certificates, need not exchange those instruments between the other people in the voting trust but could withdraw his shares and deliver up, I assume, the voting trust certificates if he wanted to sell to any person outside?

MR. BERRY: I think it would be appropriate for Mr. Nesbitt to deal with that.

MR. NESBITT: We found, Mr. Pattillo, in dealing with the institutions to sell our first

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mortgage bonds that they wanted to maintain a balance in this company without any particular member of the group being in control and a voting trust was set up for that purpose. They had no objection to us disposing of our interests, provided we sold them to a party outside of the group, and that is why this curious arrangement exists.

- Q. It is pretty unusual, Mr. Nesbitt.
 MR. NESBITT: It is, in my experience.
- Q. Just what would be the real object of the voting trust when any person could withdraw his shares, at any time, to sell to a third person?

MR. NESBITT: It prevented any individual person in this group from acquiring the interests of the others and gaining control of the company. They wanted this balance maintained of the parties in it as long as they held their interest.

Q. That does not prevent Home Oil acquiring control by simply staying outside the group and by buying each one of you out?

MR. NESBITT: Quite right.

THE CHAIRMAN: Is that effect of the voting trust agreement stated anywhere in the prospectus?

MR. PATTILLO: No.

MR. NESBITT: The effect of it, sir?

MR. PATTILLO: No.

MR. NESBITT: I do not quite understand;

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it does not seem to be an effective thing to me, sir.

THE CHAIRMAN: I quite appreciate that, now, but a voting trust agreement is a voting trust agreement whose termination dates, as I see it, dated in the prospectus December 31, 1966.

MR. NESBITT: The voting trust agreement is still in effect.

MR. PATTILLO: It could end up with one share in it.

MR. NESBITT: It could, indeed.

MR. PATTILLO: Perhaps, Mr. Chairman, this might be a good point at which to break.

THE CHAIRMAN: We will recess for ten minutes, gentlemen.

--- A short recess.

MR. PATTILLO: Q. I would like to deal for a few minutes longer with this voting trust.

Mr. Nesbitt, in the normal voting trust agreement which is set up for a period of time, the shareholders who deposit their shares in the trust agreement receive in exchange voting trust certificates; is that not correct?

MR. NESBITT: Yes, sir.

Q. And in this case were voting trust certificates issued to you -- your company and others who were in the voting trust agreement?

MR. NESBITT: Yes, sir.

Q. And it is quite normal when voting trust agreements are set up and voting trust certificates are delivered in exchange for the shares, the voting trust certificates themsleves are sold and delivered to the purchasers in lieu of the shares?

MR. NESBITT: I think that is a fair statement, yes.

Q. But the shares, notwithstanding the sale of the voting trust certificates, the shares remain locked up in the voting trust for a period of time?

MR. NESBITT: I think that is normal.

Q. Can you or any officer of the company explain why paragraph 10 was put in to vary that?

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MR. NESBITT: I think, sir, that normally all shares in a situation -- all the shares are in the voting trust, and consequently there is no difference between one shareholder and another. In this case certain shareholders were required to put their shares in a voting trust, and they are not as readily marketable as shares that are not in the voting trust, and in order not to prejudice these particular shareholders it was provided they could be withdrawn and exchanged for common shares so that they were in the same position as any other shareholders for withdrawal.

Q. Would you agree with me that if they had not been permitted to withdraw them, that the fact would have been that this group who had their shares in the voting trust would have had practical control of Trans-Canada for the lifetime of the voting trust, with no one company having the dominant position?

MR. NESBITT: I do not know that I understand the question. Do you mean this voting trust?

Q. Say a normal voting trust whereby you could not take out the shares: would not the effect have been that the shareholders who put their shares in the voting trust would have, for the lifetime of the voting trust, unless many more shares of the common stock were issued, have had practical control of the company without the

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domination of any one company in the group?

MR. NESBITT: I would think that is the case. There are, I believe, one million nine in the voting trust originally out of five million eight, so it is conceivable that someone could acquire an interest that would overbalance that, but that is a substantial interest in a company of this size.

Q. And from your experience in finance over the years, you would say the holding of that one million nine in something more than 5 million shares is probably practical control?

MR. NESBITT: It is pretty close to it, but we lost control of a company once when we had approaching that amount.

Q. Even when the rest of the shares were widely held?

MR. NESBITT: Yes, sir, they were picked up on the open market over a period of time.

THE CHAIRMAN: May I help you on the arithmetic? I have calculated some time ago, today, and there was 1,928,184 shares outstanding before this equity financing, according to the balance sheet as at December 31, 1956?

MR. PATTILLO: That is right.

THE CHAIRMAN: There were 3,750,000 shares sold and disposed of at this time, and that makes a total of 5,678,184. 50 per cent of that

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would be 2,839,092. I have not calculated the percentage.

MR. NESBITT: I think it is roughly one-third -- maybe a little less than 33 per cent.

MR. PATTILLO: Q. Very close to 33 per cent that was originally in the voting trust when the financing was complete. Now, I put it to you, Mr. Nesbitt, from your experience in finance in Canada would you not think that an investor in the shares or in the bonds or in the convertible debentures of Trans-Canada, reading this prospectus, would think that 33 per cent of the voting shares of the company were going to remain in the hands of the voting trustees named for a period, up until 1966?

MR. NESBITT: I do not know how to answer that.

Q. It is a simple question, simply "yes or "no" is the answer.

MR. NESBITT: Well I, personally, of course, knew otherwise; at least, I knew it could be otherwise. I don't know how other people -- I think they may have got that impression.

Q. Well, do you not think it might have had some effect on the purchase of these shares by Canadians if you had a sentence after that paragraph I read on page 32 which went on to say:

"Notwithstanding the terms of this voting

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"trust the whole block of shares herein con"tained can be acquired by an American who
"is not a member of this voting trust"?

MR. NESBITT: Or a Canadian.

Q. Yes, but I am first using -- I am talking about -- you agree with me there has been a great deal of concern in Canada in the last few years as to control of Canadian corporations not remaining within the country?

MR. NESBITT: Yes.

Q. I think you would agree with me that any person reading this prospectus and seeing the names of Mr. Atkinson, Mr. Loughney, Mr. Milner, yourself and others would say that this company was going to be controlled by people in Canada who had Canadian interests primarily at heart, would they not?

MR. NESBITT: Well, I think that is the case, is it not?

Q. Well, it is not if you end up with one share.

MR. NESBITT: Well, let me tell you that a company that I happen to be president of, Power Corporation of Canada, has acquired 95,000 additional shares since this from the States, and we have been working towards bringing the interests of some of these companies that were held by Americans into Canada, and I think there has been a

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rehabilitation of several hundred thousand shares into Canada since the initial financing.

Q. But none of those are within the voting trust excepting if they were acquired by one of the companies listed on page 33 of the prospectus whom we have just discussed in detail?

MR. NESBITT: Power Corporation purchased their voting trust.

Q. I appreciate that because it was one of the companies. What I want to get at: is it not possible because of Clause 10 for any one of the companies in the voting trust, if they wanted to do so, to indirectly do what they cannot do directly by selling out their interest and the interest of others whom they may have control over or be associated with to some nominee whom we could never trace through as not being a valid purchaser but merely a nominee of theirs?

MR. NESBITT: I think one has to look at how this arose.

Q. Yes, but just first answer my question and then explain.

MR. NESBITT: Could you repeat your question?

MR. PATTILLO; Mr. Reporter, would you kindly read back my last question?

THE REPORTER: Q. I appreciate that "because it was one of the companies.

"What I want to get at: is it not pos"sible because of Clause 10 for any one
"of the companies in the voting trust, if
"they wanted to do so, to indirectly do
"what they cannot do directly by selling
"out their interest and the interest of
"others whom they may have control over
"or be associated with to some nominee
"whom we could never trace through as not
"being a valid purchaser but merely a
"nominee of theirs?"

MR. NESBITT: It is possible, but may I qualify that answer?

MR. PATTILLO: Q. Yes.

MR. NESBITT: I think we are dealing with honourable people here and I just have not any concern on that score. I know the people personally and I just do not believe that they would consciously do such a thing.

Q. Whose idea was this voting trust agreement?

MR. NESBITT: Metropolitan Life Insurance Company.

THE CHAIRMAN: Excuse me a second. Is that what you meant when you answered Mr. Pattillo's first question after the break? I took your words down: "certain shareholders were required"?

MR. NESBITT: Yes, sir.

MR. PATTILLO: Q. The Metropolitan Life required it and they became the purchaser of the largest block?

MR. NESBITT: Yes, sir.

Q. And what were they seeking when they required the document?

MR. NESBITT: Mr. Clarke was in on some of those conversations. I would like to ask him to answer.

MR. CLARKE: Mr. Pattillo, they were seeking exactly what the effect of this document is. They did not want, as I understand it, any one of the people in the voting trust or the corporations that these people represent to change position, vis-a-vis any other one with respect to the shares in that trust.

Q. In other words, am I correct in thinking that they did not want any one company to have practical control? They wanted this group in the proportions they presently had it to maintain control?

MR. CLARKE: They did not want the Hudson's Bay to buy out all the others. For instance, they did not want Gulf or Tennessee or Canadian Delhi or Nesbitt, Thomson, and whatever shares remained as indicated, voted by the trustees, but as long as these individuals sold on a bona fide

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third party basis they could withdraw and get down, if you will, to one share.

Q. And some person whom they did not know of and had no knowledge of, at that time it would be quite all right for that one person to acquire practical control of the company?

MR. CLARKE: They recognized that on Friday night. I could not figure out who that could be.

Q. Friday night?

MR. CLARKE: As against Monday morning, I mean.

Q. Well, there is a rumour on the street,
I assume you have heard it, that Home Oil is the
largest shareholder at the present time.

MR. CLARKE: I have heard it.

Q. Do you know of your own knowledge whether that is true or not?

MR. CLARKE: Mr. Brown has told me that he thinks he is.

Q. And Home Oil's shares would not be within this voting trust agreement?

MR. CLARKE: They are not.

Q. Now, Mr. Nesbitt, have you had a chance to find out whether there were any over-the-counter sales of Trans-Canada stock prior to February 14, 1957?

MR. NESBITT: On an over-the-counter

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basis, you mean?

Q. Yes.

MR. NESBITT: I think we had talked about inter-sales.

Q. Yes?

MR. NESBITT: I tried to get through to the East at noon and I had to cancel my call at twenty minutes to two to come back to this hearing because the circuits were busy to the East. I shall get through sooner or later.

Q. Because it is quite common, is it not, in the business to take orders on a when-as-and-if basis?

MR. NESBITT: It is not common for me or my firm, sir, to trade securities before public offerings, and I think this is what you are talking about.

Q. It would have to be because of the fact there was not any offering until the 14th.

MR. NESBITT: That is correct. There is one other interpretation too. You said "take orders on an if-as-and-when basis": that is a different thing from trading securities.

Q. Well, let us get at the take orders then.

MR. NESBITT: Well, we had lots of applications for these units before the public offering.

Q. And as a result of that the price ---



MR. NESBITT: No, sir, absolutely not. We do not sell at what the market is, we sell at the offering price, which was \$150 in this case.

Q. Well, I was not suggesting that your firm did, Mr. Nesbitt, and I hope you do not think for one minute I was. I am simply saying that I understood that there were market quotations and over-the-counter sales prior to February 14 in Trans-Canada.

MR. NESBITT: Well, they were not carried out by members of this group. If there were such trades they were probably done by what are called unlisted traders, people who trade in unlisted securities, and there are such houses.

Q. And if there were such people and they were trying, when the public offering came out on February 14th, to put themselves in a position to fulfill, the price would go up immediately, would it not?

MR. NESBITT: I think it would have that effect.

Q. And what was the price at the end of February 14th, at the end of the day?

MR. NESBITT: The shares were not traded as such, Mr. Pattillo; the units rose, I think, to -- I am afraid I would have to get that for you, but I think it was around \$160.

MR. CLARKE: I would say a minimum in the



United States of \$160 and a maximum of around \$163.

That was against \$156 offering price in the States.

Q. And the offering price in Canada was \$150?

MR. NESBITT: Right.

Well, Mr. Chairman, those are all the questions that I have on the financial phase of Trans-Canada excepting on the matter that you brought up with Mr. McNeill. Mr. McNeill advises me that the documents to which he referred this morning are in Toronto, but that Mr. Brown of Hudson's Bay has offered to make available his copies. Mr. Brown unfortunately had to attend a meeting this afternoon, but he will make the copies available to us and be here tomorrow to explain them because he has full knowledge of the matter. Apart from that, that is everything that I want to ask on the financial phase of the matter. Because of the fact that Mr. Clarke has been good enough to stay here and has an appointment tomorrow, I would hope that we could clean up this phase of it and let Mr. Clarke go today, because he will not be able to give any evidence on the matter which Mr. Brown will be coming to deal with.

THE CHAIRMAN: I understand that, Mr.

Pattillo. Well, while we have Mr. Clarke here,

apparently you are familiar with and partook in

the negotiations with the Metropolitan Life in New

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York for the purchase of the \$40 million in bonds; is that correct?

MR. CLARKE: Yes.

THE CHAIRMAN: And we have already heard from Mr. Nesbitt and you, also, that the Metropolitan Life really imposed the voting trust agreement on certain shareholders at that time?

MR. CLARKE: That is right.

THE CHAIRMAN: Presumably as a precedent to their investing \$40 million?

MR. CLARKE: It was one of the conditions.

THE CHAIRMAN: My question is: what other conditions did Metropolitan Life impose at that time?

MR. CLARKE: The two major ones referred to certain steps which were outside the control of the company. Those two steps were the financing of the Alberta Trunk Line and the financing which would bring about the acquisition of the Montreal gas properties from Quebec Hydro-Electric Commission.

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THE CHAIRMAN: You say those conditions were imposed?

MR. CLARKE: Yes, those were conditions which we call conditions precedent to the take-down of the first moneys in the sale of bonds.

THE CHAIRMAN: Yes. I understand that. It would be an agreement to purchase ---

MR. CLARKE: It is an agreement between the company and the institutions called the bond purchase agreement, and it is in that agreement that these conditions are contained.

THE CHAIRMAN: Have we got a copy of it?

MR. CLARKE: Yes.

MR. COATES: Yes, sir.

MR. PATTILLO: Yes.

MR. CLARKE: Filed under the presentation financing documents and, in view of that unusual set of circumstances, it is also spelled out instead of being referred to in a registered statement, it is spelled out in the prospectus at the time of public offering so that people would understand who wished to buy any of these units that certain things had to be done which the company had no control over.

I think it is on page 26 of the prospectus.

THE CHAIRMAN: Item 3, "That Alberta Trunk Line shall have received net cash proceeds

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from the sale of one or more classes of its securities of not less than \$13,500,000 and that legislation shall have been adopted in the Province of Alberta authorizing the Government of that Province to underwrite or purchase up to \$26,500,000 of bonds of Alberta Trunk Line to meet that company's construction requirements for 1957 and 1958. No representation is made that Alberta Trunk Line will be able to arrange the financing referred to above or that the Province of Alberta will authorize the underwriting or purchase of such bonds of Alberta Trunk Line."

Yes, I understand what you mean. That was a condition entirely outside the ability of Trans-Canada to fulfil?

MR. CLARKE: To cure.

THE CHAIRMAN: Was it fulfilled, do you know?

MR. CLARKE: Yes. And No. 4, as well, which was the acquiring by Quebec Natural of the gas facilities in Montreal.

THE CHAIRMAN: And has that been fulfilled?

MR. CLARKE: Yes, and I might add that, as underwriters, both in Canada and the United

States, we had to think along to make sure that we were not duping the public by issuing securities on these two situations and we finally satisfied ourselves that these things could be done between

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the time these securities were issued and the time the first take-down of the bonds was scheduled.

THE CHAIRMAN: In other words, a pretty hard bargain was driven, at that time?

MR. CLARKE: We still were facing April 2, maturity date, on the securities that were issued for the Western section of the construction.

THE CHAIRMAN: I understand.

Now, you spoke of those as the two major conditions. What were the minor conditions that were imposed?

MR. CLARKE: Well, they would be contained in the language which finally was hammered out and which now constitutes the indenture of mortgage and deed of trust, which is also in the financing documents, the deed of trust and mortgage dated as of January 1st, 1957.

THE CHAIRMAN: Just to save my eyes,
you might tell me, from your own knowledge -- because
you went through the negotiations and I am sure we
can spend some time on that indenture and pick out
some of these conditions; but would you tell us the
ones you did have to hammer out, such conditions
as are unusual in this type of transaction?

You can assume, I think, that most of us are familiar with the ordinary covenants and conditions of a trust indenture of this nature.

MR. CLARKE: I think the matter of

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interest coverage is one unusual aspect. Most indentures of natural gas transmission companies provide that before additional bonds may be issued, a pro forma application of the income account, giving effect to the additional interest but taking into effect only the earnings of the past 12 out of 15 months, must be somewhere between 4 and $4\frac{1}{2}$ times a certain level of earnings, which is usually net operating revenues, before income taxes and before depreciation.

This feature, in the Trans-Canada indenture, we were able to get reduced to $3\frac{1}{2}$ times.

One of the reasons we tried to keep that low is because of another feature which permits

Trans-Canada to issue, under the terms of this mortgage, up to \$120 million of additional mortgage bonds, if the proceeds are applied to the net depreciated value at the time of the Crown company's section, and that would be done at the time the company might acquire that section.

There are several others. I have, in my brief case, nine or ten and maybe more brief references to items which I would be glad to read to you.

THE CHAIRMAN: I think I would like to hear them.

MR. CLARKE: Provisions with respect to the redemption. The net result of those negotiations

resulted in a non-refundable provision until, I believe, 1970, if the company were going to refund the outstanding bonds at the same or lower rate of interest; otherwise refundable failing the normal set-up at 105, and then, after 1970, I believe it goes down.

THE CHAIRMAN: Well, that would not be too unusual a provision?

MR. CLARKE: No. Mr. Berry corrects me and says it is 1973.

Sinking funds: nothing particularly unusual there; including the acceleration of such funds if periodic reports on gas deliverability show a certain deficiency.

THE CHAIRMAN: Not unusual in a transmission line trust deed, is it?

MR. CLARKE: No. I believe, however, one of the things about it that might be slightly unusual, the company has until 1967 to establish reserves which go to 1983 in deliverability, as against a 1978 final maturity date; and, prior to that time, I believe the establishment of reserves only goes to about 1976, as against a 1978 maturity date.

Now, there was a provision made, which is not unusual; this one came to \$13 million, but the company can issue additional bonds without making

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any test whatsoever to cure any over-runs or to take care of any deficiency that might have arisen by reason of rate change.

Due to the tax laws, I believe, in Canada as against the conventional application of depreciation in past years in the States, to the extent that earnings flowing through to net income for common stock were increased by a smaller tax payment than would otherwise have been made if depreciation had been at, let us say, $3\frac{1}{2}$ per cent, that is not available for payment in dividends; it must go into, I believe, a trust estate and can either be used for capital advantage or for bond retirement.

THE CHAIRMAN: Is that the only unusual restriction in the payment of dividends?

MR. CLARKE: I think, as I recollect, that is the only unusual one. I won't say that I have given you all the unusual ones, but I think I have come fairly close.

THE CHAIRMAN: To the best of your recollection?

MR. CLARKE: Yes.

THE CHAIRMAN: Just to save my eyes, Mr. Clarke, would it be correct to assume that, with the subordinated debentures sold in Canada by way of units of 5 common and so on, \$100 principal, that the underwriters, the Canadian underwriters disposed of all those units in Canada?

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MR. CLARKE: I think that is a substantially correct assumption. I know that, as between the Canadian and United States underwriters, we had an agreement not to sell in each other's back yard.

THE CHAIRMAN: The units were sold in Canada immediately by the underwriters?

 $$\operatorname{MR}.$ CLARKE: I certainly would say that is a correct assumption.

assuming that each purchaser of those units retained their debentures and their units, in Canada, then you would have had, in Canada, by way of common shares, as I see the picture, 2,708,335 representing 5 common shares attached to each one of the subordinated debentures, and if you add to your 1,928,184, which were the shares that went into the voting trust that Mr. Pattillo spoke of, you would have had a share total to which Canadian residents had an opportunity of -- well, no, you would have to include the 1,928,184 which you had -- 2,708,335 which the Canadian public, by and large, had an opportunity to purchase?

MR. CLARKE: If the arithmetic is correct, that is absolutely right.

THE CHAIRMAN: That is correct, is it not?

MR. CLARKE: Yes.

THE CHAIRMAN: If you counted the others

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that were in the voting trust, you would have 4,636,519 out of the total issued share capital as at the completion of this financing of 5,678,184?

MR. CLARKE: Yes, sir.

THE CHAIRMAN: I just want to make sure that you agree with my figures. You do agree?

MR. CLARKE: I certainly do.

THE CHAIRMAN: I do not know who should properly answer this question; Mr. Coates, possibly: we have been told today of a transaction between Trans-Canada and Tennessee Gas Transmission with respect to the purchase of steel, which I assume means pipe.

MR. COATES: Yes, sir.

THE CHAIRMAN: Can you tell us a little bit more about that transaction? What did Tennessee Gas Transmission get out of it?

MR. COATES: Well, they didn't get anything out of it.

THE CHAIRMAN: Oh, they got an option, did they not?

MR. COATES: Except the option to buy shares of stock at the same price that others were buying them for.

THE CHAIRMAN: Yes, they got that?

MR. COATES: Yes.

THE CHAIRMAN: Was a supply of gas at Windsor or Western Ontario part of that deal, too,

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the interruptible supply that can go through the west end of the province to your line in Southern Ontario?

MR. COATES: No, sir, that supply -- you mean the interruptible contract that we have with them?

THE CHAIRMAN: Yes.

MR. COATES: No, sir, that was made at the time that a contract was made to sell them gas at Emerson, which was in August, 1955, which was -- November 1st, 1955 is when the steel order was placed.

THE CHAIRMAN: Well, they had a very definite interest, then, at that time in protecting Trans-Canada in order that, assuming all permits were issued, that the gas would flow through Emerson into your system, is that right?

MR. COATES: Yes, sir.

THE CHAIRMAN: Under what terms and conditions did they sell this pipe to Trans-Canada? Did they make a profit?

MR. COATES: No, sir, they did not.

Tennessee Gas Transmission Company placed an order with the National Tube Company and with A. O. Smith Corporation for the pipe required to build the 34-inch portion of the line, that is the western section, 585 miles. They contracted with us,

Trans-Canada, to assign that order to Trans-Canada

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en de la Maria de la Companya de la Sala de la Companya de la Companya de la Companya de la Companya de la Comp La Companya de la Co when Trans-Canada was in a financial position to accept the order, and the National Tube Company and A. O. Smith Corporation were satisfied that Trans-Canada could meet the financial requirements of purchasing the pipe.

There was no profit. We assumed the order that Tennessee Gas had placed at the normal price for the steel as sold by the pipe manufacturers.



THE CHAIRMAN: And no other consideration, terms or advantages accrued to Tennessee

Gas Transmission?

MR. COATES: No, sir, there did not.

THE CHAIRMAN: Thank you.

Mr. Pattillo, if Mr. Frawley cares to ask any questions -- we are going to lose Mr. Clarke today. I just cannot imagine that the Commission will not have some further questions relating to finance or that counsel will not have any questions before we get through this submission. What are we going to do?

 $$\operatorname{MR}.$$ PATTILLO: I think $\operatorname{Mr}.$ Nesbitt will be able to stay.

THE CHAIRMAN: Is Mr. Atkinson, the chairman of the finance committee, going to appear before the Commission?

MR. McNEILL: That was not planned, but if that is the desire, it can be arranged.

THE CHAIRMAN: Quite frankly, I do not know.

MR. NESBITT: I shall be here tomorrow.

MR. McNEILL: We felt that with Mr.

Berry, Mr. Clarke and Mr. Nesbitt, we would have

personal knowledge of any questions dealing with the

financing. Mr. Atkinson can be produced, if that

is desired. He is, I believe, in Toronto today.

THE CHAIRMAN: Well, I certainly do not



want to suggest that he come unless it is desirable that he be here for some specific reason, having regard to the fact that Mr. Clarke goes tomorrow, and if Mr. Berry did not have personal knowledge -- the Commission does want what information it desires, but with this mass of information put before us, we are not able to say what additional information we will desire.

MR. McNEILL: Mr. Nesbitt, of course, is staying and, if it is necessary for Mr. Clarke to stay, he will stay. He will cancel his meeting; he has a directors' meeting in Montreal tomorrow.

THE CHAIRMAN: I have no desire to ask Mr. Clarke to cancel his meeting at all. I am sure Mr. Nesbitt will be able to answer these questions if he is here and, if not, we will have to get Mr. Atkinson, but I do not want to do so yet. I just want to be sure we know where we are going.

MR. FRAWLEY: Mr. Chairman, I just want to ask Mr. Clarke one question.

THE CHAIRMAN: Very well.

BY MR. FRAWLEY:

Q. Mr. Clarke, you were telling the Chairman about requirements which Metropolitan Life made. Did Metropolitan Life make any requirement in connection with the gas purchase contracts?



ANGUS, STONEHOUSE & CO. LTD.

MR. CLARKE: Yes, sir.

Q. They did?

MR. CLARKE: Yes, sir.

Q. What was that?

MR. CLARKE: Let me say this: part of their requirement was brought about because the gas purchase contracts were unusual and did not fit into the project. At the time Metropolitan first looked at it, the amendments to the existing supply contracts were effected so that it did fit into the picture. I believe one of these provisions in the gas purchase contracts had to do with renegotiation starting at what was to be for the institutional investor too early a date for the renegotiation of price, and that was adjusted and extended to, I believe, roughly, a 10-year period.

Q. Were you going to leave that adjust-ment of period now?

MR. CLARKE: Yes.

Q. Could you be more specific? Can you point to what that change was as between the old and the re-negotiated?

MR. CLARKE: Well, based on recollection only, I believe the old indicated re-negotiation at the end of the first 5 years and periodically thereafter, and the adjusted one became "at the end of the first 10 years and, periodically, thereafter." That, basically, was the change.

Q. And were there any other changes they required?

MR. CLARKE: Are you referring now to any unusual things or just anything?

Q. Any change in the gas purchase contracts which Metropolitan Life required. Mr. Chairman, I was only asking these questions because Mr. Clarke had been relating to you other changes which Metropolitan required, and if there are any other people in Trans-Canada that can answer these questions just as fully ---

THE CHAIRMAN: I understand what you mean. I thought I had framed my question to get in all the relevant information. I know that Mr. Clarke meant to give me everything, there is no question about that, but I was trying to get all this ---

MR. FRAWLEY: I was waiting and thinking you would include it and I would not have to ask.

MR. CLARKE: I believe at the stage we first started out, contracts sort of, to put it very tersely, had a clause in there on the basis you can earn so much rate of return and beyond that you have to re-negotiate. I believe at the beginning it was 7 per cent; I believe it is now 7 1/2 per cent, and I believe in view of the deep advance in the cost of money during this period, when it ended up at 7 1/2 per cent the company insisted, rightly so, in my opinion, that 7 1/2 per cent did not even



constitute a proper balance between the cost of money and the rate of return.

MR. FRAWLEY: Q. Are you referring, Mr. Clarke, to what appears on page 15-16 of the prospectus of the 13th of February, 1957?

MR. CLARKE: Yes.

Q. "All of the gas purchase contracts
"provide for price re-determination on January
"1, 1968 and at the end of each five year
"period thereafter and in addition from time
"to time, substantially as follows:
"(a) At any time the Company earns an annual

"rate of return in excess of 7 1/2% -- "

That is the passage you are referring to?

MR. CLARKE: Right.

Q. Metropolitan insisted on 7 1/2 per cent in lieu of what?

MR. CLARKE: I am not sure Metropolitan insisted on 7 1/2 per cent, but that is one of the changes that took place in conjunction with price re-determination at the time when that price redetermination was made.

Q. I was only thinking of the requirements Metropolitan imposed. There may have been others, but just at the moment we will deal with these. Are there any others?

MR. CLARKE: I think we had to get takeor-pay quantities of gas adjusted.

Q. Tell me as much as you can about that, and can you refer to page 15 or 16 in conjunction with what you are now going to tell me?

That paragraph beginning: "The minimum "quantities of natural gas required to be "purchased by the Company and the maximum "quantities of natural gas required to be "delivered to the Company by the respective "sellers, under the gas purchase contracts "of the Company, during the five years from "November 1, 1958 to October 31, 1963 were "determined upon a prorata basis which takes "into account the minimum quantities of gas "required to be delivered by the Company under "its gas sales contracts, the maximum quantities "which customers can require the Company to "deliver under such gas sales contracts the gas "reserves in the fields from which the respec-"tive sellers are to deliver gas, the delivera-"bility of such gas and other related factors. "After November 1, 1963, the maximum quantities "of gas required to be delivered by the res-"pective sellers to the Company are the respec-"tive maximum quantities required to be delivered "by the respective sellers during the year "ended October 31, 1963, and the minimum quan-"tities required to be purchased by the Company "vary from 59% to 85% of the respective maximum

"amounts required to be delivered by the

"sellers. Certain of the company's gas pur
"chase contracts provide for the delivery of

"sufficient quantities of natural gas during

"the period from November 1, 1957 to October

"31, 1958 to enable the Company to fulfill

"its delivery obligations during such interim

period."

Is the change you are now going to tell me that
Metropolitan required, contained in that paragraph?

MR. CLARKE: Yes, I believe it is.

A. Then point out what Metropolitan required?

The best way to do it, Mr. Clarke, is to point out what it was that Metropolitan required ---

MR. CLARKE: I know, but it s a little more complicated than that. Here is one phase of it: on the basis of the engineering studies which were supplied to the potential buyers, institutional buyers, of bonds, the annual capacity of the pipeline, as it grew, in those studies, could not even take care of the minimum annual take-or-pay volume in the gas purchase contracts as they were then set up. So, we had to make an adjustment on that. Furthermore, there had to be -- while they could not make any adjustment of gas purchase contracts on this score, but the minimum take-or-pay that the company would get, the minimum from its market customers, had

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to be sufficient to take care of operating expenses at a minimum level of operation and still leave enough money to pay interest and service the debt retirement when it was scheduled to take place.

Q. I do not want to interrupt you, but to put it more bluntly, were those requirements things which visited restrictions and stringencies upon the gas purchase contracts from the standpoint of the view of the purchaser? That is all I want to know.

MR. CLARKE: I am not a producer, but I would say these requirements are, in my opinion, normal requirements to make a pipeline a workable proposition, and it just was a case and a question, could the producer and the pipeline adjust these gas purchase requirements so they would be workable.

Q. And is it fair to say the Metropolitan was thinking of the result to Trans-Canada Pipe Lines rather than to the producers?

MR. CLARKE: I would say so. It was

Trans-Canada bonds they were buying. They already
had a lot of the producers'.

Q. That is reasonable. Were there any matters -- I just want to know what they were, unless they were very inconsequential.

MR. CLARKE: On the front line -- the gas purchase contracts, I believe, were initially

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set up on a 3-year construction program -- a 2-year construction program on the part of Trans-Canada.

Now, when the volumes, the minimum take-or-pay volumes had to be reduced in order to get in step with the capacity of the line to take even the minimum volume, that meant the trunk line had to prolong its construction period and go from what would have been a 2-year construction program, maybe before it got along to its full construction, it would be 3, I do not know. We had to adjust that and adjust the rate, so you knew the rate provision in accordance with the prolonged program.

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Q. Do you find any reference to that in the prospectus? Probably not.

MR. CLARKE: I think it had been done by then.

- Q. Would it be on page 17,5th paragraph?

 MR. CLARKE: Yes, that is the end result

 of that redeal on the trunk line.
 - Q. Is there anything else?

MR. CLARKE: There was a situation whereby if the company voluntarily reduces the price of natural gas -- I am reading from page 16, about halfway down: "The gas purchase contracts also provide . . ."

Q. But that was a change from the original gas purchase contracts?

MR. CLARKE: That still stayed in, I believe. However, we did get nailed down, that changes in the sales contracts price levels at any time up to the time the company first started to deliver gas would not constitute, if there were a change down, a voluntary reduction in price, which would bring about a price re-negotiation with the gas producers.

Q. That was the change that was brought about at the request of Metropolitan?

MR. CLARKE: No, that is not so; but,
I do think that in order to insulate that, I think
it is close to becoming an event of default in

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the indenture, if there is such a voluntary price reduction as qualified here on page 16, Item No. 2.

Q. Were there any other changes that Metropolitan required? I am only putting it from the point of view of the producer of gas.

 $$\operatorname{MR}.$$ CLARKE: I cannot recollect any that pertain to producers.

 $$\operatorname{MR}.$$ FRAWLEY: Thank you very much, $\operatorname{Mr}.$ Clarke.

THE CHAIRMAN: May I come back to that,
Mr. Clarke. The net effect of that was that the
producer got less for his gas; is that right?

MR. CLARKE: No. The price did not change. He stood, if minimum conditions were to exist -- a highly theoretical proposition . . .

THE CHAIRMAN: Yes, but we have to take in these realms of theory too.

MR. CLARKE: I know. If absolute minimum conditions existed in the operation, then there was no point in Trans-Canada buying at the same price more gas than it could put in its line by reason of the growth of the line, and it was just a question of tailoring the animal to fit the pot -- of adjusting.

THE CHAIRMAN: Would these be your three principal producers that were mentioned this morning -- would it affect them the same way as it would anybody else?



MR. CLARKE: It would affect everybody pro rata in accordance with when the contract said they were to start delivering gas, and I think the contracts basically all have the same general provisions as to that. Some start a little earlier because the field is not near the trunk line until the trunk line is built, and that sort of thing.

and I think it has been stated pretty well before us here in these hearings -- that Trans-Canada was having difficulty in making arrangements with producers of gas in Alberta for the sale to it of the necessary quantities of gas: would these conditions have any effect upon the company's ability to meet competition in that respect?

MR. CLARKE: I know they had plenty of difficulty several years ago, and up to the time these things were all ironed out, at the time of financing. Frankly, I do not know about any current situation like that. I don't know enough to be able to comment on it. If it exists, it certainly would be difficult for Trans-Canada to do any additional financing until it was cured.

THE CHAIRMAN: Let us ask Mr. Coates if he knows anything about that, because he is more primarily engaged in the operation.

MR. COATES: Y ur question was, did these re-negotiations as imposed by Metropolitan have

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anything to do with our difficulty to purchase gas at this time. No, sir, I don't think they did.

THE CHAIRMAN: It is a straight matter of finance, is it?

MR. COATES: Yes, sir.

THE CHAIRMAN: Of financial ability to pay? Am I right in that?

MR. COATES: Yes, sir. I believe our ability to pay is just about as good as anybody else's at this time.

THE CHAIRMAN: Have you been getting the gas?

MR. COATES: No, sir, we haven't.

THE CHAIRMAN: Can we go back to Mr.Clarke for a moment.

MR. COATES: Before you go back to Mr. Clarke, could I make a comment?

THE CHAIRMAN: Yes.

MR. COATES: There was one other amendment to the contracts that was not imposed by Metropolitan or DeGolyer, but was imposed by the producers on Trans-Canada as a result of the re-negotiations that we did go through with the producer when the producer had to accept certain requirements, and that has to do with the Favoured Nations clause where, after a passage of ten years, all producers from whom we will be buying will receive the weighted average price of gas so that if additional prices are paid

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now, after ten years when the first re-negotiation takes place, the weighted average of all contracts would then be the price for all gas purchased if no other price is established by re-negotiation.

MR. FRAWLEY: Q. I see that in this document, Contracts other than Gas Sales Contracts, and the section that is headed Summary of Gas Purchase Contracts as of February 1st, 1958.

MR. COATES: Yes.

Q. And I see that line, "Favoured Nation weighted average price after 1968" -- and that runs through them all?

MR. COATES: Yes.

Q. So that change was put in for the first time at the time of your re-negotiation?

MR. COATES: That was put in for the

first time at the insistence of the producers.

THE CHAIRMAN: Fould you agree, Mr.Clarke, that the cost of financing, that is to say, your interest rate, sinking fund payments and funded debt, and so on, has a very definite bearing on the amount that you are able to pay a producer for the gas and the price which you charge the consumer at the other end of the line?

MR. CLARKE: It certainly does.

THE CHAIRMAN: So, if you had been able to do your financing at a substantially lesser interest rate you would have been able to pay the

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producer more and put part of that benefit also to the consumer at the other end of the line; is that fair?

MR. CLARKE: Up to a point. You may be allowed, in the States, a rate of return, which is one thing, and it is another thing to earn it. To the extent that the higher cost of money closes in against a given level of return or rate of return it is harmful, but if it is lesser, then I think you are in a position to think about maybe the possibility of a voluntary rate reduction or a voluntary -- I won't say voluntary increase to the producer . . .

THE CHAIRMAN: You might pay a higher dividend.

MR. CLARKE: . . . but, you have to sit down and re-negotiate.

THE CHAIRMAN: It can go on the equity, or a benefit to the producer or consumer?

MR. CLARKE: Yes.

THE CHAIRMAN: And, therefore, your capital structure has a very direct bearing on the price paid to the producer and charged to the consumer?

MR. CLARKE: I would say so.

THE CHAIRMAN: And, therefore, the condition imposed by Metropolitan Life, which locks you in from lower interest financing for some years

is an onerous condition?

MR. CLARKE: It is onerous by reason of the fact that in my opinion the interest rates are so high. You would not have it if it were low.

THE CHAIRMAN: I am not suggesting anything wrong was done at all.

MR. CLARKE: No.

the chairman: You were the victim of high interest rates at the time you had to do this financing?

MR. CLARKE: That is right.

THE CHAIRMAN: But, if a year from now interest rates were generally lower for securities of this nature, and the company is on a much sounder basis as time goes on, and so on -- more sales and so forth -- your position is coming as you anticipate it -- and those who had the courage and spirit to go into it; it is materializing and you are able to re-finance or refund your senior obligations at 4 or $4\frac{1}{2}$ per cent -- just speculating -- $4\frac{1}{2}$ per cent, and it would make a very material difference?

MR. CLARKE: Yes, it would.

THE CHAIRMAN: But you can't do that because of the conditions imposed by these, as I take it, one-person fellows ---

MR. CLARKE: I wanted to clear up that:

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we deal with Metropolitan; we deal with the lawyers for the institutional parties. The lawyers for the institutional parties were picked by Metropolitan; the institutions which came along did not have to use those lawyers. They could use their own, but, as a general rule, they can take ---

THE CHAIRMAN: They get lost in the shuffle in the general rule.

MR. CLARKE: But it is the requirement of all institutions -- if the Metropolitan is spokesman and the lawyers for the Metropolitan are the spokesmen for these other institutions, some of the other institutions may come up with a few requirements of their own, but, by and large, you usually go with the leader, and if you have any objections to what the leader is doing, you say so.

THE CHAIRMAN: Let us clear the record: we have used the term "Metropolitan", but we don't mean it in any sense derogatory. It was the institutional buyers represented by the Metropolitan?

MR. CLARKE: Yes.

THE CHAIRMAN: Let us also clear the record on this: the cost of financing has that terrific impact to which we referred a few moments ago.

MR. CLARKE: Exactly right, and I don't want to go any further than say this, that it is

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different production and and

par for the course, particularly when you are going over some fairly difficult terrain.

THE CHAIRMAN: I wouldn't disagree with that at all. I don't know whether you are a little over or under par; I wouldn't commit myself.

MR. FRAWLEY: Q. Mr. Clarke, would it
be fair to ask you this question just apropos of
what the Chairman has been discussing with you: if
I were a producer of gas in Alberta wouldn't I be
in a happier position if I had another pipe line
company to turn to -- an alternative choice -rather than to have to deal with the one who was -and I don't use it in any derogatory sense -- locked
in by the Metropolitan Life or some other institution?

MR. COATES: Could I answer that?

MR. FRAWLEY: You can answer that tomorrow.

Mr. Clarke can probably answer it now.

MR. CLARKE: No, I don't believe so.

My answer is "No". In the first place the lockedin business would apply to any pipe line; it doesn't
have to be just this one. There are all kinds of
projects, to use your expression, "locked in".

MR. FRAWLEY: Q. Perhaps I am putting too much emphasis on that. You say almost every pipe line company is locked in by institutions who provide for the financing of it?

MR. CLARKE: If he wants to get his bonds sold and go ahead with his expansion programme.

Q. Well, don't you think if I am a producer of gas in Alberta that I am in a happier position if I have another pipe line company to look to rather than one?

MR. CLARKE: I think that a producer of gas in Alberta, from what I have listened to at these hearings during the time I have been here, is looking to the market in Canada, and to the extent there are reserves beyond that, then if they are available, the more pipe lines I imagine the happier he would be; but, until that is established, I don't think to a producer in Alberta it makes too much difference.

Q. All right, I will put it another way: you don't subscribe to the monopoly theory, do you?

THE CHAIRMAN: Monopoly theory of what?

MR. FRAWLEY: Q. Pipe lines?

MR. CLARKE: No, sir. There is, to my knowledge, no monopoly .area -- at least, in the United States there is not.

There is virtue in competition whether in pipe lines or in selling gasoline?

MR. CLARKE: There certainly is.

MR. COMMISSIONER LEVESQUE: Mr. Berry, in case you haven't got it here this afternoon, I would like to have this tomorrow morning: on page 37 of your prospectus, you have got a note -- you



know what I mean -- so many at \$8 and so many at \$10?

MR. BERRY: I have it available now.

MR. COMMISSIONER LEVESQUE: Is it very long?

MR. BERRY: I can give it to you now or tomorrow morning. Is this as of December 31st, 1956?

MR. COMMISSIONER LEVESQUE: That is right.

MR. BERRY: That relates to the number of shares of 1,928,184?

MR. COMMISSIONER LEVESQUE: Right.

MR. BERRY: What you want to know is, how many shares and at what price, as of that date: the original 2,002 shares had been issued at \$1 a share, and they are the only shares that have been issued at that price. Therefore, all the remaining 1,926,182 shares were issued for a consideration of \$8 per share. So that, at December 31st, 1956, the average issue price for the shares then outstanding was \$7.99. The figures that in total relate to that are shown at the page you mention.

THE CHAIRMAN: If you go on beyond

December 31st, 1956, and take it to December 31st,

1957, there is a change in that, is there not?

MR. BERRY: Yes, sir. Would you like

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to have those?

THE CHAIRMAN: We will get it in the morning.

Is there anything further, Mr. Pattillo?

MR. PATTILLO: Nothing further now.

THE CHAIRMAN: Thank you very, very much, Mr. Clarke, indeed, for being here today and helping the Commission with your background and information. I appreciate the frankness with which you answered the questions.

MR. CLARKE: Thank you, sir.

THE CHAIRMAN: The Commission will adjourn until tomorrow morning at 9.45.

---Whereupon the hearings adjourned at 4.40 p.m. until 9.45 a.m. on Friday, February 21st,1958.

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY, ALTA.

VOLUME No.:

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ANGUS, STONEHOUSE & CO. LTD.

371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865





ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Monday, February 3, 1958, at 10.00 A.M.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. - Chairman

Mr. J.L. Levesque, - Member

Mr. G.E. Britnell, - Member

Mr. G.G. Cushing, - Member

Dr. R.D. Howland, - Member

Mr. L.J. Ladner, Q.C. - Member

Dr. R.M. Hardy, - Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

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APPEARANCES:

Mr. N.J. McNeill

Representing Trans-Canada Pipe Lines Limited:

Mr. F.P. Layton - Associate Counsel

Mr. Charles S. Coates - President

Mr. William B. Tippy - President of Commonwealth Services Inc.

Mr. H. Dix Fowler - Vice-President

Mr. R.C. Berry - Vice-President and

- Counsel

Treasurer

Mr. Ralph S. Orme - Natural Gas Consul-

tant, Commonwealth
Services Inc.

Mr. V.L. Horte - Chief Gas Supply Engineer

Mr. Gladstone Stewart, Jr. - Vice-President,
DeGolyer and
MacNaughton, Dallas,
Texas.

Mr. A.D. Nesbitt - President, Nesbitt,
Thomson & Company,
Investment Bankers,
Montreal, P.Q.

Mr. N.E. Tanner - Chairman of the Board

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EXHIBITS		Page
C-21-1	Purchase Agreement dated February 8, 1956, between Trans-Canada, Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas.	2124
C-21-2	Letter dated February 21, 1958, from Mr. N.E. Tanner	2167
C-21-3	DeGolyer and MacNaughton report, dated January 1, 1957, Reserves Under Contract, Summary of Estimated Saleable Natural Gas Reserves under contract to Trans-Canada, Alberta and Saskatchewan, together with letter dated February 3,	
	1958.	2176



Friday, February 21, 1958

--- Upon resuming at 9.45 a.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings. Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, before we start any further examination this morning Mr.

McNeill has asked that the company be given an opportunity to read into the record the breakdown of the shareholdings and debenture holdings that they have procured.

MR. McNEILL: I might say we felt that yesterday's record adequately covered the original distribution of the first mortgage pipe line bond sales of the units at the time of the sale but we felt it would be desirable to round out the record at this time by giving you the present distribution as to the residence of the holders of each of the debentures and the common shares.

Mr. Berry will read that into the record at this time, and I think it will give you the full picture.

MR. BERRY: Mr. Chairman, I have here an analysis of the holdings of common stock and of the subordinated debentures as at December 31, 1957, which has been furnished to us by the Montreal Trust Company who are the transfer agents and

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trustees. With respect to the common stock this analysis indicates that out of a total of 32,429 shareholders 84.07 per cent as at December 31, 1957, were residents of Canada. Out of that same total the remainder of 15.93 per cent are residents of the United States and other countries and these holders held out of a total number of shares of 4,353,184, which was the free stock not attached to the units as of that date, 78.65 per cent were held by residents of Canada and the balance by residents of the United States and other countries.

With respect to both the United States and Canadian series debentures, as of December 31, 1957, there was attached two shares of stock per \$100 principal amount of debentures. In other words, these are commonly known as partial units.

The securities were held by a total of 27,523 holders of which 86.87 per cent were residents of Canada and the balance residents of the United States and other countries. In terms of principal amount, 75.02 per cent of the total outstanding principal amount were owned by residents of Canada and the remainder by United States and other countries. The number of shares in total attached to the partial units as of that date was 1,500,000 shares.

THE CHAIRMAN: Would I be correct, Mr. Berry, in suggesting that when you use the term

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"owned" you mean shown on the books of the Montreal
Trust Company as being registered in the name of
with the address shown therein?

MR. McNEILL: With a Canadian address, that is quite correct, sir.

MR. BERRY: If I might suggest, when we closed yesterday I was giving the breakdown of the value for Mr. Levesque. Is this an appropriate time to complete that?

THE CHAIRMAN: Yes, sir, please, Mr. Berry.

MR. BERRY: We left off at a point where there was a total of 1,928,184 shares outstanding as of December 31, 1956. During 1957 and, in fact, right up to the present the additional shares issued were a total of 175,000 shares in respect of options including the sale to Mr. Kernan and White, Weld and the public offering constituted 3,750,000 shares, bringing the total outstanding at the present time to 5,853,184 shares. Are you interested in the dollar value attributable to this, Mr. Levesque?

MR. COMMISSIONER LEVESQUE: I am more interested in the capital structure here because if I might ask a question, I went through the transcript last night and there were 10,000 shares issued to Mrs. Tanner at \$1 a share.

MR. BERRY: I am sorry, sir, that was not an issue to Mrs. Tanner. As I understand it

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from Mr. Tanner that was a sale of shares that had previously been issued to the original parties, Canadian Delhi, I believe.

MR. COMMISSIONER LEVESQUE: Yes, does that mean Delhi paid \$8 and sold its shares at \$1? Would that be the answer?

MR. BERRY: Well, to be precise, at least the largest number of them, yes, sir. The only shares that were issued for \$1 total 2,002 shares back prior to July 31, 1954.

MR. COMMISSIONER LEVESQUE: Yes, but if we go back to Wednesday, Mr. Tanner told us that Mrs. Tanner received 10,000 shares at \$1 a share.

MR. McNEILL: Not from the company, that was a transfer and not an issue of shares.

MR. COMMISSIONER LEVESQUE: Does that mean Delhi paid \$8 and sold at \$1?

MR. McNEILL: That could have been.

They could not have transferred more than their

1,001 of the \$1 shares. In other words, Delhi
had 1,001 \$1 shares and all the rest of their
shares were \$8 shares.

MR. COMMISSIONER LEVESQUE: That is not the question: did Delhi pay \$8 a share and sell for \$1, yes or no?

MR. McNEILL: Of the 1,001 shares they gave to Mrs. Tanner it could have been \$1 shares.

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The remainder must have been \$8 shares.

MR. COMMISSIONER LEVESQUE: All right.

MR. COMMISSIONER CUSHING: Why is it necessary to write that sentence into the prospectus? That actually is a private deal, is it not?

MR. BERRY: Which sentence?

MR. COMMISSIONER CUSHING: On page 32, that Mrs. Tanner is the beneficial owner of 9,999 shares of the company.

MR. McNEILL: That was a requirement of the United States Securities Act in which it is necessary to disclose holdings of shares of officers or of relatives of officers. That is required by the SEC of the United States, that was in compliance with their regulation.

MR. COMMISSIONER CUSHING: . I see.

MR. COMMISSIONER BRITNELL: Does that mean at that time no other relative of an officer of the company held any shares?

MR. McNEILL: I am not an American lawyer, but as I understand it, this pertains only to holdings of a certain size.

MR. PATTILLO: Is Mr. R. C. Brown here?

MR. McNEILL: Yes, he is here.

MR. PATTILLO: Would you ask Mr. R. C. Brown if he would come forward.

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R. C. BROWN, sworn

BY MR. PATTILLO:

- Q. Mr. Brown, you reside in Calgary?
- A. Yes, sir.
- Q. And you are the president of Hudson's Bay Oil and Gas Company Limited?
 - A. That is correct.
- Q. And you were a director of Trans-Canada?
 - A. Yes, sir.
- a voting trust created on January 1, 1957, relating to some of the common shares of that company?
- A. You used the word "were", Mr. Fattillo; I still am.
- Q. Now, when did Hudson's Bay Oil and Gas Company Limited first acquire any shares in Trans-Canada?
- A. Mr. Pattillo, if I might quote from some notes I prepared last night. Hudson's Bay Oil and Gas Company's First interest arose in the spring of 1954. An examination of our mining and gas reserves was of some concern to us and also as to what might be done with them. Through one of the directors of our company we became acquainted with the original sponsoring group of Western Pipe Line and it became known they would

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welcome, first, some participation in the project and support by producing companies and, secondly, some financial support. I had some discussions with Mr. Allan Williamson whose name has appeared in the record, I believe.

- Q. Of Wood, Gundy?
- A. Of Wood, Gundy. He indicated to me that his associates in the Western group would welcome not only participation on the part of our country but other companies as well. For a period of months, from say April to October, 1954, we had a series of discussions and as a result of that our company acquired 10 per cent of the number of shares then owned by the Western Pipe Line Group. That would be equivalent to 5 per cent of the total outstanding shares of Trans-Canada.
 - Q. That would be in the fall of 1954?
- A. That is correct, sir, October to be exact.
- Q. Did you acquire these shares from the treasury of the company or were they transferred to you by present shareholders?
- A. These shares were transferred to us by the then existing shareholders.
 - Q. What consideration?
- A. We paid them their price of \$8 which they had paid and in addition a computation was made of the approximate interest involved for

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the time they had had their money invested in the shares and I think that came to \$1.20 a share.

I can give you that number if you like. The calculation for 10 per cent of the equity of the then Western Group amounted to 28,654 shares, in October, 1954. That is the number for which we paid \$8 and an additional \$1.20, making a total of \$9.20 a share.

- Q. Now, following that acquisition, you continued to hold that percentage interest, 5 per cent, in the whole until 1956?
 - That is correct, until February, 1956.
- Q. And at that time your interest figures to 17 per cent?
- A. Our interest was increasing monthly, because having joined and assumed our 5 per cent of the total, we were then responsible for our 5 per cent of the monthly cash refunds of Trans-Canada and as our company advanced our part of those monthly refunds for cash, we were allocated shares; one share for each \$8, the same as all the other participants in the venture.
- Q. Perhaps we can get it like this: can you tell me, just immediately prior to the change in the situation in February, 1956, how many shares the company then had?
- A. At that time, prior to that change in the situation in February, 1956, we had accumulated 59,284 shares.
- Q. And that represented what percentage of the shares outstanding?
 - A. Approximately 5 per cent.
- Q. Approximately 5 per cent. What happened in February, 1956?
- A. The events that happened in February, 1956 were the result of a series of events starting

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in November, 1955.

- Q. Will you start, then, with November, 1955 and bring us right up?
- A. I will be happy to do so: being a participant in Trans-Canada we were naturally following its efforts to finance and get going. We were aware of the problem relating to pipe and if Trans-Canada was to be in a position to do any construction in the year 1956, orders had to be entered with the steel mills to get the pipe on the rolling schedule. We were informed that Mr. Symonds, representing the Tennessee Transmission Company, had agreed to place those orders on behalf of Trans-Canada. I believe the agreement he entered into with Trans-Canada has been discussed by the Trans-Canada people.

Shortly after Mr. Symonds entered into that agreement, I believe his first -- this is only partially from records and I cannot be too exact as to the date -- his first approach made to the then Canadian Gulf Oil Company with the idea that the success of the Trans-Canada venture was of great importance to the producers as well as to Tennessee's project to buy gas. I was informed that he had some sympathy with the viewpoint of Canadian Gulf Oil, and also talked then with the chairman of the Board of Hudson's Bay Oil Company, Mr. L.F. McCollum. Mr. McCollum called me into conference with the group and, over a series of meetings, say from the

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10th of November until about the 15th of December, it was agreed that it was somewhat imperative for the producing companies to get behind this Trans-Canada project. Mr. Symonds, specifically, thought we should share his pipeline liability and made the direct declaration to me that the number of shares on which he had an option was a larger position than he wanted to have in Trans-Canada. We did some investigating on our own with the financial interests, basically in New York, and it was very clearly indicated to us that Trans-Canada would have difficulty and, probably, could not finance unless some of the operating and producing companies joined in the venture. It was very clearly suggested to us that our position should be one of temporary control.

- Q. Who made the suggestion to you?
- A. A number of financial houses in New York - basically, representatives of Metropolitan Life, and some of this information was conveyed to me by my chairman, though I am not exactly certain what companies were involved.
 - Q. Yes?
- A. From that consideration a plan was developed that the three companies, Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas, would subscribe to a sufficient number of shares and put into the treasury of Trans-Canada, at the rate of



\$8 per share for those shares. The number of shares was calculated to represent 51 per cent of what would then be outstanding after their issue, divided equally between the three companies. It was agreed with the original sponsors of Trans-Canada that this was only an interim ownership and, upon financing or completion of construction, there was a certain latitude in time, each of these three companies would surrender back to the original sponsoring group two-seventeenths of the number of shares they had, each company owing 17 per cent of the total to make up the 51 per cent of control. That is, we would surrender these shares back at the same \$8 price at which they were acquired, plus, I believe it was, 4 1/2 per cent on our money from the time it was invested. On behalf of our own company, I think it was made abundantly clear in discussions with the sponsors of Trans-Canada and with certain representatives of the Federal Government, particularly Mr. C.D. Howe, that our position was not of a gas transmission company. We did not want to be in that position permanently, and it was quite likely, upon completion of financing, or, at least, upon completion of construction of the line, we would get out of the project. I have left out a great deal of detail that, naturally, took place in the discussions, but that is the historical picture of the ownership of the 17 per cent shares

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acquired by our company.

The point I probably did not make quite clear was that in building up the 17 per cent we only acquired sufficient additional shares to bring our total up to the 17 per cent figure. At that time, Tennessee had subscribed for a few shares, I believe during the months of November and December. That company took sufficient shares to bring it up to the 17 per cent and Canadian Gulf bought its full 17 per cent.

- Q. And this whole proposal that you have outlined, you say, was made known to the Honourable Mr. C.D. Howe, who was then the Minister of Trade and Commerce, before it was completed?
- even jelled into an agreement -- representatives of both the original groups in Trans-Canada, Mr.

 Schultz, representing Canadian Delhi, Mr. Nesbitt, representing the Western Group, and myself, representing the three new companies, visited Mr. C.D.

 Howe on the 29th day of December, 1955, outlined this tentative plan in considerable detail and were informed by Mr. Howe he would be very happy if in this approach to get new companies, our coming into this, endorsed and subscribed to the principle that at least 51 per cent of the shares shall be offered to the Canadian public. Of course, he was assured.



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- Q. And you gave him assurance that you would?
 - A. Yes. May I add one other point?
 - Q. Yes.
- A. Having that general understanding with Mr. Howe, then we proceeded to reduce our agreement to writing in a tentative form and, again, the principle came up and when that was done we presented him with a copy of that tentative agreement and discussed it item by item.
 - Q. Have you a copy of that agreement?
 - A. Yes.

MR. McNEILL: I would assume, Mr. Chairman, we may replace this executed copy in the Commission's records as soon as we can get that out.

THE CHAIRMAN: Yes, but you do not have to worry. I do not think we will lose it in the records.

MR. BROWN: There are a number of related agreements and this is the entire file.

MR. PATTILLO: Q. Thank you very much, Mr. Brown.

I have in my possession, handed me by Mr. R.C. Brown, an agreement headed "Purchase Agreement dated 8th February, 1956" between Trans-Canada Pipe Lines Limited of the first part, Tennessee Gas Transmission Company of the second part, Canadian Gulf Oil Company of the third part and Hudson's Bay



Oil and Gas Company Limited of the fourth part, and this document provides that the subscribers, who are the parties of the second, third and fourth part, agree between themselves and with Trans-Canada that within ten days from the execution of the document they would subscribe for unissued treasury shares of Trans-Canada in the following amounts: Tennessee, 307,291, common shares; Canadian Gulf, 327,791 common shares; Hudson's Bay, 268,507 common shares; the purchase price to be \$8 per share.

Clause 5 of the agreement provides concurrently with the execution of this document the three subscribers were to execute an option agreement in favour of the Montreal Trust Company providing for an option upon the shares of Trans-Canada owned by each of them.

Clause 6 provides Trans-Canada declares and agrees with these arrangements: that the financing and the costs of construction of the west-east natural gas transmission line proposed to be built by Trans-Canada will include a public offering in Canada of common shares of Trans-Canada's presently unissued capital stock in an amount not less than 51 per cent of the total number of common shares of Trans-Canada to be outstanding after such offering has been made, including shares covered by such offering, and it is Trans-Canada's intention

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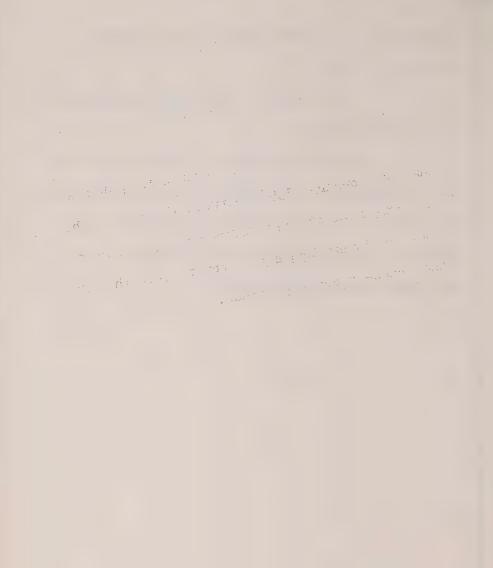
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to effect a wide distribution of such shares throughout Canada.

I think these are the important provisions of that document.

Attached to it is an agreement made the 8th of February, 1956, between the three subscribing companies who are defined as optionors and Montreal Trust Company as trustee for the offerees and Trans-Canada Pipe Lines.



The offerees, under Clause 1 on page 2, subclause (b) are named as International Utilities Corporation (NT) Investments Limited; Osler, Hammond & Nanton, Limited; Wood, Gundy & Company Limited; the Calgary and Edmonton Corporation Limited; Montreal Trust Company, as trustee for Canadian Delhi Oil Limited and Canadian Delhi Oil Limited.

Clause 2, subclause (a) gives the offerees the right and option to purchase, during the option period, 38,563 shares from each optionor, and the offerees are entitled to receive these shares in the proportions of their then present holdings.

The price is \$8 per share plus interest at the rate of $4\frac{1}{2}$ per cent from the date of the agreement to 52 days after the date of option, together with any transfer tax that may be payable and a sufficient sum to pay the fees and expenses of the trust company.

The date of option was to be a date selected by the optionors not less than two days after the giving of a notice and not later than three years after the date of filing of the agreement and, in the event no notice was given, then the three-year period was to be the period of option.

Attached to this document is also a Schedule B, dated the 8th day of February, and it is

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a letter addressed to the three subscribing companies and signed by all the then shareholders, and they say that in consideration of the subscribers' agreeing to execute the purchase agreement, each of the shareholders covenant to increase the number of directors to 18; to elect a nominee of Canadian Gulf and a nominee of Hudson's Bay as directors; to establish an executive committee which would have powers set out in the draft bylaw consisting of 8 members, including the president and executive vice-president of Trans-Canada, a nominee from Tennessee, Hudson's Bay, Canadian Gulf, Canadian Delhi and two nominees from the Western Group.

THE CHAIRMAN: Would you mind reading the nominees to the executive committee again, Mr. Pattillo?

MR. PATTILLO: The president, executive vice-president of Trans-Canada; a nominee from each of Tennessee, Hudson's Bay, Canadian Gulf, Canadian Delhi; two nominees from the Western Group.

The final document is a document dated the 9th day of February, 1956, signed by all of the original two groups, Hudson's Bay and the Montreal Trust Company, and provides for the termination of a voting trust that had been in existence since the 21st day of October, 1954, and

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Clause 4 provides for the distribution of all the common shares in the capital stock of Trans-Canada held by the Montreal Trust Company as trustee under the former voting trust, amongst various people.

That, all in all, was 443,128 shares that were distributed, and provided for the Montreal Trust Company to continue to hold the 58,919 common shares which were under option from Delhi.

MR. PATTERSON: That will become Exhibit C-21-1, Mr. Chairman, the right of substitution as outlined by Mr. McNeill.

---EXHIBIT NO. C-21-1: Purchase agreement dated February 8, 1956, between Trans-Canada, Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas.

MR. PATTILLO: Q. Now, Mr. Brown, did the Hudson's Bay Oil and Gas Company Limited, following February, 1956, acquire any additional shares in Trans-Canada?

- A. No, sir.
- Q. And has Hudson's Bay Oil and Gas disposed of all its holdings in Trans-Canada?
 - A. Yes, it has.
- Q. When were these disposals made, to whom and for what price?
 - A. In July, 1957, Hudson's Bay Oil



and Gas effected a sale through Morgan, Stanley & Company, New York, for 95,000 shares at a price of \$35, less commission.

- Q. And who was the buyer?
- A. I don't know, sir. Morgan, Stanley were an agent and our deal was with them.
 - Q. Right.
- A. On September 12, 1957, Hudson's Bay
 Oil and Gas effected a further private sale through
 the same company, Morgan, Stanley, for 100,000 shares
 at a price of \$30 a share, less commission.
 - Q. Who was the buyer?
 - A. I do not know.
- Q. Well, let us try again. What happened to the rest of them?
- A. On November 15, 1957, the next transaction for Hudson's Bay Oil and Gas was to surrender back to the original sponsor, in accordance with the option agreement you have just read, the 38,563 shares it was so obligated to surrender.

That price, of course, was at the \$8 as prescribed in the agreement, plus the interest calculation.

The last and final disposal was on January 10, 1958, where we effected a private sale directly with Home Oil Company for the remaining 94,228 shares at a price of \$25 per share.

I think, Mr. Chairman, that according

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to the entire record in the final transaction I have just mentioned with Home Oil Company, we made a further sale of our rights and liabilities under the note purchase agreement referred to, with Home Oil assuming Hudson's Bay Oil and Gas Company's full position under that agreement.

Q. Now, is there anybody on this side of the table who can tell us who acquired those shares that Morgan, Stanley got in July and in November?

MR. McNEILL: We could, I expect, trace those shares through the share records of our transfer agent, the Montreal Trust Company. We have not got that information with us. I certainly would attempt to follow those shares if I could get them identified and located as to whom they went to. They did not go out of the voting trust initially when they went to the name of Morgan, because the purchaser was not known; they were not released from the voting trust. They were subsequently released. So I am sure that that information can be obtained.

I have acquired some further information since I spoke last. Mr. Nesbitt informs me that Power Corporation obtained 95,000 shares, which would be a portion.

MR. PATTILLO: Well, that is the first block?

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THE WITNESS: The first block was 95,000 shares.

MR. PATTILLO: Thank you. Those are all the questions I have to ask Mr. Brown, Mr. Chairman.

MR. FRAWLEY: Mr. Chairman, I only have one question.

BY MR. FRAWLEY:

Q. Mr. Brown, I made note that you said temporary control by the producers had been suggested by New York, and my note is not any clearer than that.

Who suggested the temporary control by the producers?

- A. Mr. Frawley, I cannot give firsthand evidence on that. I only have this information
 from the directors of my company who went to New
 York and stated that this was the general reaction
 they obtained from discussion with the financial
 fraternity. The one name I mentioned in the
 record a moment ago, the Metropolitan, was mentioned to me by my principal.
- Q. Well, that is what I was wondering, whether or not this was a requirement by Metropolitan Life as a condition to the purchase of the first mortgage bonds.

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A. I would like to correct that, sir. The first mortgage bonds at that time were not under consideration. It was merely suggested it would be a requirement of the financial houses to complete a satisfactory financing program with Trans-Canada.

MR. McNEILL: I wonder if I might ask Mr. Brown one or two questions, just in clarification of Hudson's Bay's position?

THE CHAIRMAN: Certainly.

BY MR. McNEILL (Cont'd):

- Q. Mr. Brown, Hudson's Bay Oil and Gas Company is a producer of gas?
- A. Well, let us say we own some gas reserves. We would like to produce it.
- Q. And your company has entered into a contract to sell at least a portion of your gas reserves to Trans-Canada Pipe Lines?
 - A. Correct, sir.
- When did you first enter into such a contract with Trans-Canada?
- A. We conducted a series of negotiations with Trans-Canada during the latter months of 1954 and early 1955. Our first sales contract is executed as of the 2nd day of March, 1955, and relates to the largest reserve we own, the

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Cessford gas reserve in Eastern Alberta.

- Q. And that gas reserve in the Cessford field has been under contract to Trans-Canada, either under that contract or amending contracts since that time?
- A. Continuously since that first contract.

THE CHAIRMAN: Mr. Brown, the Hudson's Bay Oil and Gas Company Limited is a Canadian company?

Q. Incorporated under Dominion charter in November, 1926.

THE CHAIRMAN: And its shares are listed on certain of the stock exchanges in Canada, is that correct?

A. Only on the Toronto Exchange.

THE CHAIRMAN: Only on the Toronto Exchange?

A. Yes.

THE CHAIRMAN: Is control of Hudson's Bay in Canada?

A. No, sir, it is not, sir.

THE CHAIRMAN: Would you mind telling us ---

A. I would be very glad to. When Hudson's Bay Oil and Gas Company was originally incorporated, the ownership was 75 per cent by the company that is now under the laws of the United States and 25 per cent by the English company. That condition remained down through the years until the

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year 1957. In September, 1957, just recently, an offering of rights was made to the shareholders of both Continental and Hudson's Bay Company, whereby those shareholders could subscribe at a stated price for 1,744,592 shares of Hudson's Bay Oil and Gas Company.

Those shares were all issued. At the present time the company has 17,744,592 shares outstanding, and the ownership is 67.8 per cent by Continental Oil Company, 22.6 per cent by Hudson's Bay Company and approximately 13,000 shareholders living all over the world owning the remaining percentage.

THE CHAIRMAN: Thank you. Now, let us go back to history for a moment. At the time that Trans-Canada was negotiating, trying to get some resolution of its preliminary financial problems at Ottawa, Hudson's Bay Oil and Gas was a contracted producer, is that right?

A. That is right, sir.

THE CHAIRMAN: And we were told yester-day that exception was taken by the producers to a proposition respecting financing made by, I believe, the Industrial Development Bank, am I correct, in the form of convertible debentures?

A. That is correct.

THE CHAIRMAN: Did your company take violent exception to that proposal at that time?

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A. Mr. Chairman, we were a member of Trans-Canada and people doing the negotiating were doing the negotiating for us as well as the rest of the people.

No, sir, we did not express any objection to it.

THE CHAIRMAN: Did you have any objection to it?

A. Well, I want to be clear. I had certain reservations in my own mind but that did not affect our policy. I would have preferred to have contracts with a privately controlled company but we were under contract to Trans-Canada for the gas which was approved for export by the Alberta Board and it was not a matter that I could exercise any discretion in.

THE CHAIRMAN: So you would have sold, in any event?

A. Mr. Chairman, I am sure you are trying to get to the real problem of this matter.

THE CHAIRMAN: Yes, I am.

A. I have no axe to grind with other fellows. I would like to point out that the gas reserves in question that our company owned that were approved for export are very relatively shallow reserves, lying in Eastern Alberta, right close to the Alberta-Saskatchewan border.

The other company whose name was mentioned

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yesterday was dealing with a problem of some wells that are almost 11,000 feet deep, a terrifically expensive plant to build and they had the problem of cleaning up some sour gas and removing a lot of by-products. I merely suggest, for the consideration of the Commission, that our problems were different in some respects. It was easier to complete our contract, I think, than for the other fellow to complete his.

THE CHAIRMAN: You mean sour gas and sulphur and so on would make a difference as to one's attitude as to who controlled the company?

A. No, sir, I mean the reason that their contract had not been completed at that time was because they had more problems to solve in the contract than we did.

THE CHAIRMAN: Let me get this straight.

Their contract had not been completed?

A. That is my understanding.

THE CHAIRMAN: Perhaps Mr. Coates can help us on this.

MR. COATES: No, sir, we had not contracted with them at the time.

THE CHAIRMAN: Trans-Canada did not at that time have a contract for the purchase of gas from Canadian Gulf?

MR. COATES: No, sir, we did not.

THE CHAIRMAN: But you were negotiating

for one, is that it?

MR. COATES: Yes, sir.

THE CHAIRMAN: And then, in that way, your position, Mr. Brown, your company's position, Hudson's Bay's position was very different, because you were under firm contract?

A. That is correct, sir.

THE CHAIRMAN: Thank you.

MR. PATTILLO: Thank you, Mr. Brown. It has been very good of you to come.

MR. PATTILLO: May I call Mr. R. A. Brown, Jr.?

R. A. BROWN, JR., sworn

BY MR. PATTILLO:

- Q. Your full name is Robert Arthur Brown, Jr.?
 - Yes, sir. A .
- And you are the president of the Home Oil Company?
 - Yes, sir. Α.
 - Q. And recently became a director of

Trans-Canada?

- That is correct, sir. Α.
- Q. When did you, in fact, on what date,



did you become a director of Trans-Canada?

A. December 7, 1957, sir.

THE CHAIRMAN: It is very difficult to hear you, Mr. Brown. Could you speak a little more clearly?

THE WITNESS: Yes, sir.

MR. PATTILLO: Q. Now, Mr. Brown, prior to the public offering of Trans-Canada, Home Oil Company had no share interest in Trans-Canada?

- That is correct, sir.
- At the time of the public offering it did subscribe for and receive some of the units that were being offered, did it not?
 - Α. Yes, sir.
- And am I correct in thinking that at that time it acquired 32,440 Canadian units?
- A. My record indicates 33,000 units, sir.
 - Q. 33,000?
- A. Yes, sir, and we had obligation to other people associated with us that brought our net down to 29,414 units.
- Can you tell us what those cost the company?
 - They were at the market price, sir. Α.
- Following that, did Home Oil acquire any of the securities or shares of Trans-Canada on the open market?

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- A. It acquired some on the open market and some by negotiation with financial houses in Canada.
- Q. First, let us deal with the ones you acquired on the open market.
 - A. Yes, sir.
 - Q. How many were there of those?
- A. I have them listed in detail here, sir. I have not got them subdivided.
 - Q. Will you give us the detail?
- A. Between February 25 and March 4, we bought 15,000 through Drinkwater, Weir in Montreal. On March 19th we bought, through Nesbitt & Thomson, 10,000. Between March 12 and April 1, through Wood, Gundy, 32,000 shares. March 22nd to April 10th, through Wisener & Company, at Toronto, 121,000 shares.

Now, sir, when I speak of financial houses, on July 29th, through White, Weld & Company, New York, we bought 85,000 shares; but that was more, I think, of a private transaction rather than through the stock market.

September 6, through Nesbitt, Thomson, we negotiated for 100,000 shares.

September 10th to January 10th, 1958, we bought 41,000 shares from Wisener & Company.

October 18th, we bought 189,227 shares from Tennessee Natural Gas Transmission Company.

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December 31, with the transaction concluded early in January, 94,228 shares from the Hudson's Bay Oil and Gas Company.

Between February 7 and February 20, 1958, Wisener & Company, 15,000 shares.

February 13, through Drinkwater, 700 shares.

That makes a total number of shares of 813,455.

THE CHAIRMAN: Exclusive or inclusive of the shares included in the units?

A. Home Oil does not own any units at all now, sir. It only owns shares. It sold the bonds associated with those units.

THE CHAIRMAN: So the 147,200 shares you brought along as part of the units are not included in this total?

> A. They are included in that total. THE CHAIRMAN: They are?

A. Yes, sir.

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- Q. You segregated the bonds and the shares, kept the shares and sold the bonds?
 - A. That is correct.
- Q. In addition to 800 and some thousand shares that you had, did you hold any rights to acquire any additional shares?
- A. Yes, we held the option to acquire convertible notes to the extent that if converted it would mean 158,666 shares, for which one would have to pay \$15 per share.
- Q. You acquired what from Hudson's Bay Oil and Gas?
- A. 79,333 from Hudson's Bay, and from Tennessee Gas ----
- Q. Mr. Brown, I am not going to inquire into the price that you paid for your stock on the Exchanges or where you have been buying from underwriters, but I do want to know the price that you paid for the shares that you acquired from Tennessee Gas.
- A. The deal with Tennessee Gas involved the exchange of certain wells in the Homeglen oilfield, the Pembina oilfield and Harmatton-Elkton gasfield. We asked Mr. Kennedy of Lehman Bros. to put a valuation on those and he acted on their behalf also and he valued the oil and the gas in the properties. The price paid for the stock was on the day in October when I made the arrange-

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ment with Mr. Douglas Symonds and the values were worked out in that manner.

- Q. I am not too clear yet. You say the price that you paid for the stock was the market price on the day you made the deal. Is that right?
 - A. That is correct.
 - Q. Can you give us that price?
 - A. I can give it to you approximately.
 - Q. Right.
 - A. 25 5/8.
- Q. And to satisfy control over the properties the value of it was ascertained by Mr. Kennedy of Lehman's?
 - A. Yes.
- Did you pay any cash in addition or did Tennessee pay you any cash?
- A. The value of the property worked out to \$100,000 more than the number of shares times the market price and we kept the production until the end of December and Tennessee paid us \$100,000 cash.
- Q. Now, he next thing I would like to inquire about is Hudson's Bay. What was the price you paid for that stock?
 - A. We paid \$25 a share for 94,228 shares.
- How much did you pay for the options that you detailed to us?
- A. We paid the difference between \$15 and \$25, or \$10 a share for 79,333.



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- Q. Did you do the same thing with Tennessee, in acquiring its option, did you pay the difference between the market price and the \$15?
 - A. That is correct.
- Q. Mr. Brown, at the time that you acquired these shares from Tennessee and from Hudson's Bay, did you know anything at all about the voting trust agreement dated January 1st, 1957 entered into by certain shareholders of the company on that date regarding the certain shares --
- A. I was aware of it, yes. It is referred to in the Trans-Canada prospectuses.
- Q. When you had these transactions with Hudson's Bay and Tennessee, did you get voting trust certificates or did you get shares?
 - A. We got shares.
- Q. Were you aware that these shares, the shares of Tennessee and Hudson's Bay had been under the terms of the voting trust?
 - A. Yes, we were.
- Q. Do any of the shares that you presently hold form part of the voting trust?
 - ... No.
- Q. Does Home Oil own these shares in its own right or is it holding them as the trustee for any other person, firm or corporation?
 - A. All shares are owned by Home Oil in

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its own right.

- Q. Who are the principal shareholders -- how many shares of Home Oil are outstanding?
 - A. Approximately 3,500,000-odd.
- Q. Can you give us the approximate break-down of those between Canadian and U.S. shareholders?
- A. The shares are divided into Class "A" and Class "B". There are 1,500,000 Class "A" shares and the balance are Class "B" shares. Of the Class "A" there are 2,020 U.S. shareholders and 5,288 Canadian shareholders. Of the Class "B" there are 1,143 U.S. shareholders and 2,962 Canadian shareholders, making a total U.S. shareholdings of 3,163 and a total Canadian of 8,250, for a total of both of 11,413 shareholders.
- Q. Is Tennessee Gas a shareholder of Home Oil Company to your knowledge?
 - A. Not to my knowledge.
- Q. Has it, to your knowledge, any option outstanding to it whereby it can acquire any treasury stock of Home Oil Company Limited?
 - A. It has no option.

THE CHAIRMAN: Are you finished for the moment?

MR. PATTILLO: I think that is all I was going to ask Mr. Brown.

THE CHAIRMAN: Mr. Brown, you gave the

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breakdown of the number of shareholders, U.S. shareholders holding Class "A", Class "B" stock.

A. Yes.

THE CHAIRMAN: With respect to the Class "A" shares, I think you said 2,020 U.S. shareholders?

A. Yes.

THE CHAIRMAN: Could you tell me the total of the shares which they hold?

A. I haven't got that figure. We are preparing it this morning and I will be very happy to give it to Mr. Pattillo. We didn't have time to get it ready this morning.

THE CHAIRMAN: I see. Well, then, are you preparing that for both U.S. and Canadian, with respect to each class of stock?

A. We are, yes sir.

THE CHAIRMAN: Would you mind telling the Commission the difference between Class "A" and Class "B" shares, the provisions attaching to these shares?

A. The essential difference relates to the voting rights. The Class "A" shares have no voting right; they carry an annual dividend of 25 cents a share. The Class "B" shares are the voting shares and after the dividend is paid on Class "A" shares, the next 25¢ would be paid to the Class "B" shareholder after which both shareholders parti-

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cipate equally in the profits of the company.

THE CHAIRMAN: In other words, Class "A" is preferred as to dividend?

A. Yes.

THE CHAIRMAN: But has no vote?

A. That is correct.

THE CHAIRMAN: Under any circumstances?

A. There is a situation, if we pass consecutive dividends for three years -- my lawyer is here and he can give me that answer.

THE CHAIRMAN: That is what I would understand it to be, but I am quite prepared to accept that; it would be a matter of public record?

A. Yes, it is.

MR. PATTILLO: There are two questions I would like to ask Mr. Brown.

- Q. First, you have told us that Home Oil is the absolute owner of the shares of Trans-Canada. Is there any option outstanding in favour of any person whereby they can acquire the share control at any time?
 - A. No, there is not.
- Q. The second question I would like to ask, do you of your own knowledge know whether there is any group of Canadians who are in a position to control Home Oil; practical control?
 - A. The voting control of Home Oil?



- Q. Yes.
- A. Yes, I do.

MR. FRAWLEY: Q. Mr. Clarke of Lehman Bros. told the Commission yesterday that you had told him that you thought the Home Oil Company was now the largest shareholder in Trans-Canada. Is that so?

- A. That is correct.
- Q. And you now feel that Home Oil does not control Trans-Canada --
- A. No. I think that Home Oil has the largest shareholding with Trans-Canada.
- Q. Well, then, it does control the voting stock in Trans-Canada?

THE CHAIRMAN: Not necessarily.

THE WITNESS: No.

MR. FRAWLEY: Q. What is the situation, Mr. Brown? Would you explain?

- A. Well, out of the approximately 5,800,000 shares of Trans-Canada outstanding Home Oil holds 817,000 shares.
 - Q. And again, the additional 158,666?
- A. That is correct, if they exercise the option.
- Q. The largest, with or without exercising the option?
 - A. Either way.
 - Q. Either way?



- A. Yes, either way.
- Q. Home Oil has the largest holding?
- A. Yes.

MR. FRAWLEY: Thank you very much for coming.

I am sorry we interrupted your plans to leave this morning.

THE WITNESS: Not at all.

THE CHAIRMAN: Thank you, Mr. Brown. I think we might have a break, Mr. Pattillo; a ten minute recess.

--- A short recess.

THE CHAIRMAN: Gentlemen, we will resume.

Mr. Patterson, before you proceed I have one or two further questions I would like to ask -- I suppose Mr. Berry is here -- just on this share question.

While we are at it, there is still in the voting trust, as I understand it from the evidence of yesterday and this morning, Canadian Delhi Oil Company shares totalling 479,040.

MR. BERRY: That figure has been augmented by various transactions. The present balance is 542,885 shares. The transactions include the addition from the option of the three companies who, at one time, held the company's 51 per cent ---

THE CHAIRMAN: Yes, and also in the voting

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trust are the shares shown in the prospectus as being beneficially held by the British American Oil Limited in the amount of 327,790.

MR. BERRY: That number has been reduced as a result of the transfer to other members of the voting trust, to a figure of 289,227 shares under the ---

THE CHAIRMAN: Would you repeat the number?

MR. BERRY: 289,227 shares.

THE CHAIRMAN: Thank you.

MR. BERRY: The reduction taking place in terms of the document which Mr. Pattillo reviewed earlier.

THE CHAIRMAN: Then that makes a total of 832,112?

MR. BERRY: Yes.

THE CHAIRMAN: Are there any other shares held in the voting trust at this time?

MR. BERRY: Yes, a total number of one million ---

THE CHAIRMAN: How many?

MR. BERRY: 1,254,751 shares.

THE CHAIRMAN: That includes the 832,112?

MR. BERRY: Yes. The remainder are held

THE CHAIRMAN: Is that a long list?

largely by members of the original Western Group.

MR. BERRY: There are about eight names.

The Carlotte Committee of the Committee

THE CHAIRMAN: Would you mind giving them?

MR. BERRY: International Utilities Corporation, the balance is 19,100 shares; Osler Hammond and Nanton have a balance of 58,783 shares; N. T.

Investments Limited, 32,627 shares; Wood Gundy & Co. Limited, 108,322 shares; Calgary & Edmonton Corporation, 43,877 shares; Power Corporation of Canada, 33,500; Nesbitt Thomson Co. Limited, 6,430; Canadian Power & Paper Securities, 20,000 shares.

That is a total of 1,254,751, and this is at January 28th, 1958.

THE CHAIRMAN: I think we have already established that any number of those shares can be sold at any time from that voting trust by any of the members provided they don't sell to each other.

MR. BERRY: That is in the terms of the agreement, yes.

THE CHAIRMAN: Thank you very much.

MR. FRAWLEY. Might I ask -- just the only two -- I do not recognize the N.T. or M.

MR. BERRY: N. T. Investments Limited.

Mr. Nesbitt can tell us more about that company if
you are interested.

MR. FRAWLEY: Just whether it is a Canadian--MR. BERRY: Yes, oh, yes, it is one of the Nesbitt Thomson group of companies.

MR. FRAWLEY: One of the Nesbitt Thomson

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group?

MR. BERRY: Yes.

 $$\operatorname{MR}.$$ FRAWLEY: And the other one is York something.

MR. BERRY: I beg your pardon?

MR. FRAWLEY: Immediately following the N.T.

MR. BERRY: Wood, Gundy & Co. Limited.

MR. FRAWLEY: For the 108,000 ---

MR. BERRY: Yes.

MR. FRAWLEY: I didn't hear that. Wood, Gundy. I see. Thank you very much.

MR. PATTILLO: Mr. Chairman, we are now proposing to move to another phase of the inquiry and to deal with the question of reserves that the company presently has available, but before doing that there are just two questions which I would like to ask to clear up the record.

First of all, Mr. Nesbitt, have you yet received any information regarding over-the-counter sales prior to the public offering of Trans-Canada or Westcoast Transmission?

MR. NESBITT: Last night, Mr. Pattillo,
I called three people, John McConnell, my director
and assistant to the president of Nesbitt Thomson
Co., Jack McCausland, a director of Wood, Gundy &
Co. Limited, and Mr. Wisener of Wisener & Co. Ltd.

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In my opinion, Mr. Wisener is the outstanding aftermarket trader in Canada, and that's why I elected to call him.

In each instance last night I was told that they knew of no trading in the shares of Trans-Canada Pipe Lines Limited prior to the public offering. My chap said he had heard that there was a trading in Vancouver, but he couldn't tell me who was involved in it, and this thing is like a little ball of mercury, and it is just a phantom as far as I can see.

Now, the first trade that Mr. Wisener made in these shares was on February 26th at a price of \$18.50. That same day my own firm had one trade at \$19.50, 45 shares. We did not trade any further because the president of our company found out about this transaction and did not permit any further trading until just before the shares were detached from the unit.

Now, on the opening date of the public sale, which was February 14th, 1957, the units, which consisted of one debenture and five shares common, were worth nominal values of 100 and 10 respectively, that is 100 for the debentures and 10 for the shares. Mr. Wisener's opening call of the market was 156 to 158.

Now, a curious situation in this is that

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that would appear to indicate if one took the debenture at 100 that the common stock was in the order of \$11 to \$12.

But I submit, Mr. Pattillo, that in the opening trading of the stripped debentures they were in the 70's, and if we took the debenture value at 75, to give it full marks, you could suggest that the common stock was worth nothing, practically.

THE CHAIRMAN: Or 16?

MR. PATTILLO: I have a little difficulty with my mathematics.

If you drop it down, if you say the stripped debenture was at 75 and the par was 100, there is 25 in there. You would add it onto the shares, wouldn't you?

MR. NESBITT: I guess you are right.

THE CHAIRMAN: Wouldn't it make it \$16?

You say this is a ball of mercury; we think we are chasing butterflies.

MR. NESBITT: Well, I don't know who else to appeal to. As I mentioned yesterday, these shares were attached to debentures and they couldn't be traded.

Another point in this case is that we have 58 members in the banking group. These members were not permitted to free trade stock. Now, 58 members of the underwriting fraternity in Canada

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takes in just about everybody who does underwriting and distribution before the play and I am absolutely confident that no members of our bank group free traded this stock.

MR. PATTILLO: When were you first permitted to strip the debentures?

MR. NESBITT: That was in June; three shares were removed.

THE CHAIRMAN: Well, excuse me. If three shares were removed and sold at 75 that would give a value to the two shares still attached to the debenture. So that all of your free shares would be worth considerably more than 60.

MR. NESBITT: No, because that quotation of 156 to 8 included five shares.

MR. PATTILLO: Yes, but what Mr. Borden is suggesting is when you first stripped the debenture of three shares in June, I understood you to say that the debenture with the two shares left was selling for 75.

MR. NESBITT: No, that is a fully stripped debenture, without any shares on it.

MR. PATTILLO: Yes.

MR. NESBITT: And those were traded on an if, as and when basis. And the value of these debentures today, the first actual quotation that my people could find was on December 13 on a quotation



sheet of A.E. Ames and Company, and the stripped debentures were quoted 89 to 91. They are currently 94 - 95.

MR. PATTILLO: Well, Mr. Nesbitt, I don't want you doing too much hard work, trying to find these trades, but I will give you a lead. I have made inquiries in Vancouver.

Now, I think that is all I want to ask you. The other question I wanted to ask Mr. Coates was: you told us yesterday about the resignation of some of the directors of Trans-Canada and you gave me the explanation for the resignation of Mr. Ward, the successor to Mr. Symonds, and the explanation of Mr. R.C. Brown, and as I understand it, that was because three companies had divested themselves of any share interest.

Now, why did Mr. H.R. Milner resign?

MR. COATES: With your permission, I will read his letter of resignation.

MR. PATTILLO: Thank you.

MR. COATES: The letter is directed to Mr. N.E. Tanner, chairman, Trans-Canada Pipe Lines Limited, Post Office Box 500, Calgary, Alberta.

"Dear Mr. Chairman --- "

MR. PATTILLO: Dated when?

MR. COATES: Excuse me; dated December 14, 1957.

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"Dear Mr. Chairman:

"I have felt for some little time that
"some of the members of your Board were
"looking on me with a somewhat jaundiced
"eye, no doubt as a result of my connection with the Can-Cal project. Moreover,
I am not entirely in sympathy with your
"attitude towards the Tennessee contract.
"Let me state my position.

"As far as export of gas to the United "States is concerned, I have always taken "the position that the gas requirements of Alberta and Eastern Canada have a high "priority. Nevertheless, the export of some gas across the line is inevitable. "It is in the interests of my Alberta 'companies and should also be to the ad-"vantage of Trans-Canada Pipe, to maintain "a close alliance with anyone who is "likely to obtain a permit to export sub-"stantial quantities. As far as I am concerned, there was every advantage in "making an alliance with Pacific Gas & "Electric, which conceded the prior rights "of the Canadian market, rather than "with a group, also American dominated, "which is obviously endeavouring to obtain

 $(x_1, x_2, \dots, x_n) \in \mathbb{R}^n \times \mathbb{R}^n$



"American Pacific coast and the States and provinces immediately to the east. Trans"Canada it seems to me should have adopted the same attitude."

"Apparently you propose to dedicate to "Tennessee large quantities of cheap gas "which are now available to serve the eastern 'Canadian market. That is the only inter-"pretation which can be drawn from the "reports appearing in the Press to the "effect that in the recent hearings before "the Federal Power Commission the Trans-"Canada witnesses stated that the company 'already had enough gas to supply the Canadian market and the Tennessee market for "fifteen years. In my opinion, as I have "frequently stated, the advantages of the "Tennessee contract must be determined on "the assumption that we will pay for gas delivered to it four or five cents more "than is now being paid for gas which in "my opinion has been dedicated to the 'Canadian market.

"In the price comparison statement for"warded to me by Mr. McNeill under date of
"the 18th of November it appears that for

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"the first three years the price per
"M.C.F. to be paid by Midwestern Gas is
'29.06 cents and the price to be paid in
'the Manitoba zone is 28.33 cents. In
'the next two years the corresponding
"figures are 27.07 cents and 24.58 cents.
"In the second five years they are 28.09
"cents and 24.58 cents. The advantage
"to the Manitoba zone would be more than
"offset during these first ten years
"at least by the increased prices you will
"be paying for the Tennessee gas.

"Originally the idea was that the
"Tennessee contract would not only assist
"in financing the Trans-Canada project, but
"would also create a differential in favour
"of the eastern market. That seems to have been lost sight of entirely.

"I have not been consulted about the attitude the company should take in the "current hearing before the Petroleum and "Natural Gas Conservation Board on the "application of West Coast Transmission for a permit to export gas to the United "States and, consequently, I agrees no "opinion. However, it does strike me that "reliance on a full dress presentation

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"before the Borden Commission and a nominal

"appearance before the Conservation Board

"may be regarded as an affront to the latter.

"Finally, for the foregoing and other

"reasons which are unnecessary to mention,

"I have come to the conclusion that I

"should resign and please consider this my

"resignation as a director.

"It has been a pleasure to be associated
"with you and the other members of the Board.

"Jith kindest regards, Yours sincerely,

H. R. Milner."

A copy of this letter was directed to me also.

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MR. PATTILLO: I do not wish to examine you on the letter now, but may I have a copy of it so I may study it to direct questions later?

MR. COATES: Yes, we will get you one.

MR. FRAWLEY: May I ask Mr. Coates one question? Did Mr. Milner dispose of his share interest in Trans-Canada, too, do you know, or if he has any share interest?

MR. COATES: As far as he is personally concerned?

MR. FRAWLEY: Yes.

MR. COATES: As far as I know the only share interest he had was one share to qualify as a director. I believe, yesterday -- I spoke with Mr. Symonds and we have a letter of resignation also from Mr. Brown, if you would like that read into the record. His reason for leaving, in the letter, was his shares were to be distributed to the public, as he stated this morning, and that his job in his own organization would require most of his time and he could not devote the time to Trans-Canada that he felt he should if he continued as a director, and furthermore they were divesting themselves of the shares of Trans-Canada.

MR. PATTILLO: I do not think there is any need to read that letter, and the letter from Mr. Symonds is simply as you told us yesterday, that he was resigning because of his own duties.

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MR. COATES: Yes, sir, and to be replaced by another member of his organization who has since resigned when they no longer held any shares.

THE CHAIRMAN: And no difference in point of view of policy by any other of the directors?

MR. COATES: No, sir, no statement of that kind.

MR. PATTERSON: Mr. Chairman, I would like to develop for the Commission an outline of the gas purchase contracts and reserves of Trans-Canada Pipe Lines Limited, and in order to do that I direct your attention to a volume of material which has been handed to us entitled "Economic Feasibility Report". It is dated September, 1956 with supplement Volume 1. Under section 4 there is a review of gas purchase contracts, authorizations and gas reserves and certain, perhaps more up-to-date information, is contained in a further report entitled "Report on Certain Natural Gas Reserves Available to Trans-Canada Pipe Lines Limited, Provinces of Alberta and Saskatchewan, Canada, as of January 1st, 1957."

For the form of gas purchase contract a further group of documents entitled "Trans-Canada Pipe Lines Limited Contracts Other Than Gas Sales Contracts" will be referred to.

Q. Now, Mr. Coates, I am not sure to whom these questions should me directed, but I will

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MR. COATES: I might say the economic feasibility report was prepared by Commonwealth Services and we have Mr. W.B. Tippy, who is president of the Commonwealth Services Inc., who can answer in connection with that. The report of "Certain Gas Reserves Available to Trans-Canada" was prepared at the direction of Mr. Gladstone Stewart, who is vice-president of DeGolyer and MacNaughton, consulting engineers in Dallas, Texas, who is here and will answer questions in connection with reserves.

In addition, we have Mr. Verne Horte of our own staff who will be available to assist in any details, more particularly present details.

Q. Thank you.

Turning then, to section 4 of the economic feasibility report, September, 1956, under the heading "Gas Purchase Contracts" appearing on page 1, this statement appears: "Description of contracts, two interim and twenty-two long-term contracts as amended covering quantities of gas to be purchased from eleven natural gas fields in effect for pending execution between various gas producers in Alberta and Trans-Canada Pipe Lines Limited are listed on Exhibit 3 of the Appendix to this report.

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one other field, the Kessler field. The contract covering the Princess field includes the adjacent Patricia field."

In connection with that paragraph can you tell me what the present position is in regard to the interim and long-term contracts? Are the same number of contracts as set forth in Exhibit 3 now in effect?

MR. COATES: Mr. Horte can answer that.

MR. HORTE: I believe there have been additional contracts signed since the date of the preparation of that exhibit to which you refer. I will just refer to that to make sure.

MR. FRAWLEY: I understand that the economic feasibility report has not been reproduced?

There seem to be just one or two copies.

MR. PATTERSON: I do not have a further one available. Perhaps for the purpose of following this Mr. Layton can lend you one.

MR. FRAWLEY: I should be interested in this if I am interested in anything.

MR. PATTILLO: Mr. Frawley, I will not make any comment.

MR. PATTERSON: Have you also got this 1957 volume ---

THE CHAIRMAN: Mr. Patterson, I am a little confused. The submission, Mr. Coates, of Trans-Canada contains this new level of estimate of gas

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required to fulfill Canadian demand over the next years, and the export at Emerson. I just do not want to get into a duplication of work. There is further material that you are preparing, is there not?

MR. COATES: On the deliverability of gas and on economics?

THE CHAIRMAN: Yes, on economic feasibility.

MR. COATES: There is a new market study

that has been submitted to the Commission, but there
is no economic feasibility report in preparation at
this time.

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MR. PATTILLO: , Mr. Chairman, perhaps I can clear up the confusion.

Q. As I understand it, your calculations, which were previously based on certain market figures, do not fit in with the present calculations as to the potential markets.

MR. COATES: That is correct.

Q. And it was that readjustment, that I understand you would not have available at this moment?

MR. COATES: But we will prepare it.

Q. But that you would prepare it.

MR. COATES: Yes, sir.

MR. FRAWLEY: Let me see if I understand it: the important thing to me was the document Present and Potential Canadian and Export Natural Gas Markets of Trans-Canada Pipe Lines Limited, marked as Exhibit C-19-4 dated February, 1958, and was presented by Mr. Orme.

MR. PATTILLO: May I explain it so that
everybody will understand what we are trying to do?
The company has come forward and said it required
a very substantial increase in supplies. It says it
needs them for the Canadian markets and also for
the prospective United States market. In order to
inquire into how reliable those estimates are, I
think what we have to start to find out is, what
are the present reserves that they have under contract;

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then I propose to inquire into the costs of transmission to the eastern market, and I propose to
inquire into how reliable their estimates of the
eastern market are. When we have concluded that,
it seems to me we will have the background to
enable us to take a look at this proposed mid-west
contract. That is the way, Mr. Chairman, I am
proposing to put it before the Commission.

MR. McNEILL: May I make this one point in order to clarify this problem: we have referred to the economic feasibility report presently bound in two volumes. One copy, the first, Mr. Frawley, prepared by Commonwealth Services Inc. includes a market study dated December, 1956, and all of the engineering economics of the plan are based or are tied to that particular market study.

Now, in our submission we have filed a very new market study dated February this year. We have not got a similar economic feasibility report tied to that study. We will study such a report when it is possible, physically possible, to go through the calculations and mathematics in order to produce such a document. That will take us some considerable time.

MR. FRAWLEY: Thank you very much, that certainly clears up the difficulty I had in trying to correlate the Economic Feasibility Report dated September, October or even December, 1956 with Mr.

Orme's document of February, 1958, which asks for 23 million cubic feet of gas for 30 years.

BY MR. PATTERSON:

In getting, then, at the present position, may I suggest that this process may save us some time: I find myself under some difficulty in reading and correlating what is set out in this Volume 1, what is set out in the report of DeGolyer and MacNaughton, January 1st, 1957 as to contracts, and I then found I was trying to turn to the volume entitled "Contracts Other Than Gas Sales Contracts", which gives a typical contract and a series of sheets describing the actual contracts and any variations from the typical contracts, and I wonder if you had, for us, a summary which sets forth the present contracts and, particularly, the names of the companies with whom you have contracts, and such things as the amount of gas which Tennessee, Canadian Delhi, Hudson's Bay Oil and Gas, and so on, have contracted to supply to you.

Can you, in fact, develop that for me so

I can find my way through the three books, or

would you rather give me that in summary form at
a later time?

MR. HORTE: It might be easier -- I do not have that in prepared tabulation at this time.

I could read into the record all the contracts which

we do have, but it might be better if we prepared that and just gave that to you.

Q. I think that will be more satisfactory. I would like, then, to review with you the position under the present contracts, certain of the terms of them and, again, I would appreciate your assistance if, in trying to relate three separate volumes, I have not found the proper place -- page 4, section 4, this statement appears: "The daily quantities of gas covered by the long-term contracts total as follows: for the first year, 230,200 MCF per day. For the second year, 452,977 MCF per day. For the third year and thereafter, 591,977 MCF per day."

Is that a correct statement of the present situation as of daily contract quantities of gas covered by the then existing contract?

MR. McNEILL: Mr. Patterson, before Mr.

Horte answers, maybe this would be helpful: the
report referred to, page 4, section 4, is the first
of a series of volumes having to do with the TransCanada report on economic feasibility, and is dated
September, 1956. This section is a summary of
contracts that we found in investigating the situation
in July and August in preparation for this report
that came out in September.

You then mention the DeGolyer and MacNaughton report, which is here; that also came through

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after and contained modifications in the contract.

It was at the end of the year, I recall ---

MR. STEWART Jr.: January 1, 1957; the reserves were as of January 1, 1957, but contracts included in this Exhibit 3 up to, I would say, June, or thereabouts, 1957.

MR. McNEILL: Following that you will find there are references to these contracts, particularly in the February, 1957 report which was the final series of documents just prior to financing. The situation today would, necessarily, be different to that which was set forth in the September report and all this follows.

Q. Then, as I take it, as to this daily quantity of gas covered by long-term contracts, I cannot find that as of today covered in these various volumes.

MR. HORTE: Not in summary form, Mr. Patterson. It is listed by individual contracts, the exhibit "Contracts Other than Gas Sales Contracts" which you referred to earlier. I have the total of all gas daily contract quantities which we have under contract at this time, and I could read that into the record.

Q. I would appreciate that.

MR. HORTE: Reading this by years, 1957-58, that is for the contract year commencing November 1, 1957 and ending October 31, 1958, we have under

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contract on daily basis 56,975,000 cubic feet per day that we have the right to call on in any one day. Following that, in the year 1958-59, for the same November to October period, 308,682,000 MCF in one day. In the year 1959-60, 394,444,000 cubic feet per day. 1960-61, 475,175,000 cubic feet per day. In the year 1961-62, 531,710,000 cubic feet per day. In the year 1962-63, 578,618,000 cubic feet per day, with the volume of 578,618,000 per day being carried forward for the term of the contract.

In other words, it levels off at 578,618,000 for the duration of the gas purchase contract.

MR. PATTERSON: I think, Mr. Chairman, there was some question of adjourning at 12.00 o'clock today?

THE CHAIRMAN: Mr. Tanner, I believe you want to hold a meeting, do you not, and we are perfectly happy to adjourn now, and we will reassemble at 2.00 o'clock, if that will give you time.

MR. TANNER: Thank you very much.

---Whereupon the hearing adjourned at 12.00 p.m. until 2.00 p.m.

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---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Patterson?

MR. PATTERSON: I have, Mr. Chairman, a letter from Mr. Tanner in response to the request in regard to the times, particulars of amounts received on his transactions in regard to the sale of shares.

That might become Exhibit C-21-2.

---EXHIBIT NO. C-21-2: Letter dated February 21, 1958, from Mr. N.E. Tanner.

MR. PATTERSON: Now, I asked this morning that you prepare for us, based on the information contained in regard to the contracts other than gas sale contracts, a statement showing, in summary, the amount presently under gas purchase contracts, and I believe that in the reviews of reserves that are contained in the DeGolyer and MacNaughton report, reference is made to whether the reserves under contract are dry sweet gas, associated gas and sour and condensate field gas and, rather than go through all that long list, I wonder if, in preparing the summary of gas under contracts, you also put in the information in that regard and give to us, as a final summary, the percentages of gas presently under contract which falls into those general

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categories.

I am assuming you do not have it in simple tabular form.

MR. STEWART: We do not now have it. We would be very happy to provide it.

MR. PATTERSON: Q. Dealing briefly with the gas purchase contracts, have you, in conveniently summarized form, a statement of the price provisions as now in effect?

MR. HORTE: Sir, are you referring to price provisions and contracts we presently have under negotiation or contracts that have been signed?

- Q. Contracts which have been signed.
- MR. HORTE: Yes, sir, we can make that available.
- Q. The information, again, is contained in these books but, if you could make it available --
 MR. HORTE: Right.

In the contract, the typical contract shown in this exhibit, contracts other than gas sales contracts on page 27 thereof -- pardon me, it is on page 28, listed there is the price paid for all gas bought prior to the time of the original financing, the 10¢ contract price.

There have been aditional quantities purchased at a price which is different from that by an amount of 2ϕ added to each column of figures shown in that typical gas purchase contract. In

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other words, the prices as provided on page 28 of the typical contract have been increased by 2ϕ .

Q. In certain instances in the summary, which are actually shown if one examines it, there is a summary of all the contracts following the typical contracts?

MR. HORTE: That's right. Where they refer to 12ϕ as the contract price, it is similar to a 10ϕ contract, except for the addition of 2ϕ to the price indicated as provided for each year throughout the life of the contract.

- Q. Could you then prepare that in tabular form, again to save us having to digest this?

 MR. HORTE: Yes, sir.
- Q. In connection with the gas purchase contracts which are found in the volume "Contracts Other Than Gas Sale Contracts" at page 45 there appears Article XV relating to the matter of gas reserves of the seller and, at page 46, the second paragraph, states:

"In the event it is determined by the par"ties hereto or the arbitrators in any of
"the joint studies provided for above that
"seller has dedicated gas reserves with
"deliverability in excess of that required
"that seller shall perform according to
"the permits and provisions of this con"tract, buyer will, at the request of



'seller, release from dedications hereof
"the gas reserves which are not required
"for such performance by seller."

Am I correct in suggesting that the reason for the fact that reserves owned by the seller and not covered by the contract were not dedicated to Trans-Canada Pipe Lines for a period during which Trans-Canada might make further applications for export is that the seller wished to reserve to himself the opportunity, in the event you wished to make further purchases, to re-negotiate the question of price?

MR. HORTE: Sir, I would say, in answer to that, that my understanding of why that provision is in the contract, from the standpoint of the producer, is that the contract provides that we purchase certain quantities which are listed in Tabulation C attached to this contract; and the seller, in other words, does not dedicate more gas than it will take to provide the quantities that we have contracted for.

In other words, he says, 'You are buying so much gas for me and I see no reason to dedicate more gas to the performance of this contract than it would take to perform under the provisions of this contract.'

That is my interpretation of that.

Q. Are you familiar with the dedication clause in the Alberta and Southern contracts?

MR. HORTE: No, sir, I am not. I have

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read one of their contracts but I am not familiar enough in detail to know what it does provide.

Q. Nor to comment on what may be the reason for the difference?

MR. HORTE: No, sir.

Q. I take it that under your gas purchase contract, you set out the quality of gas which you are purchasing and it is up to the seller to remove from the gas which he delivers to you any impurities by way of liquid petroleum gases, sulphur and so on?

MR. HORTE: That is correct.

Q. Have you any studies regarding the amounts of liquid petroleum gases and sulphur that are likely to be produced as a result of sales to Trans-Canada Pipe Lines?

MR. HORTE: No, sir, we do not. We have not made that type of study. We have an analysis of the gas from which a study such as that could be made, but we have not made such a study.

It would require more information than just the analysis of the gas and it involves the particular design of a plant to suit the particular type of gas or to suit a market that you may have for products at a particular time, so each one is — any study of that sort depends upon many conditions in addition to just what is contained in the gas itself.

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Q. In other words, it is fair to say that the problems of extracting and disposing of LPG's and sulphurs you have left to the producers who have sold the gas to you under these contracts?

MR. HORTE: That is correct.

Q. I take it that the Alberta export permit under which you are presently operating is reproduced in summary form at page 15 of Section 4 of Volume 1 of the '56 feasibility report?

MR. TIPPY: Sir, that is a summary of the permit as it existed at the time of the report.

I don't know whether there has been an amendment since then.

MR. McNEILL: There have been amendments since, Mr. Patterson, since the resume of that permit that is contained in the Commonwealth feasibility report.

That report takes us up to and includes the 5th of June, 1956.

MR. PATTERSON: Mr. McNeill, I would appreciate receiving a copy of the present permit but, for the moment, is this correct, that the 12 months! maximum is 183 million MCF, and the total aggregate is 4,350 million MCF under the permit now?

MR. McNEILL: The 12-month maximum stated in the report which you are reading from of 183 million MCF is now 210 million MCF.

MR. PATTERSON: But the total aggregate

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has not changed from approximately 4.35 trillion?

MR. McNEILL: 'That is correct.

Q. And supplementing that export permit, you received a letter dated September 9, 1955 from Premier Manning of Alberta, is that correct?

MR. TIPPY: That is an exhibit to the report, Exhibit 4 in the report.

Q. The letter to which I have reference is mentioned on page 17 of Section 4 and is Exhibit 4.

MR. COATES: That is correct, Mr. Patterson.

Q. And before reading that letter might I ask whether there has been any further letter received since that time which would in any way change or alter the letter dated September 9, 1955?

MR. COATES: No, there have been no further letters.

MR. PATTERSON: The letter to which I have reference, if you desire it read -- if the Commission does not have it before it, I will proceed to do so, otherwise I think we could take it as read.

THE CHAIRMAN: No, I think we would like to hear it.

MR. FRAWLEY: Let us hear it.

MR. PATTERSON: It is headed "Office of the Premier of Alberta, Edmonton, September 9, 1955: Mr. N.E. Tanner, President, Trans-Canada Pipe Lines Limited, 326 9th Avenue West, Calgary, Alberta.

"Dear Mr. Tanner:

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"The Government has considered the
"representations of your company that it
"would assist in the financing of your
"pipeline project if assurance was given
"by the Government and the Petroleum and
"Natural Gas Conservation Board that
"additional reserves of gas over and above
"those covered by the present permit would
"be made available for the project as they
"become surplus to the requirements of the
"Province.

"The Government, after consultation

"with the Board, is prepared to give those

"assurances provided that (a) your company

"contracts for the reserves covered by the

"permit issued May 14, 1954 or for approved

"alternate reserves in the same aggregate

"amount; (b) any additional reserves applied

"for are covered by contract.

"Yours very truly,"

(signed) "Ernest Manning, Premier"

Q. Referring to paragraph (a) of the letter dated September 9, has your company contracted for the reserves covered by the permit issued May 14, 1954 or for approved alternate reserves in the same aggregate amount?

MR. COATES: Yes, sir, we have.

Q. And for any amendments to that permit

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issued May 14, 1954?

MR. COATES: Well, there has been no amendment as to any additional aggregate amount of gas.

Q. Turning to the DeGolyer and MacNaughton report of January 1, 1957, there is a tab
"Reserves Under Contract, Table 2, Summary of
Estimated Saleable Natural Gas Reserves as of January
1, 1957, under contract to Trans-Canada Pipe Lines
Limited in the Provinces of Alberta and Saskatchewan."

Do you have a more up-to-date report by

DeGolyer and MacNaughton than the one set out there?

MR. STEWART: Yes, we have revised these

figures.

Q. And have I those in any of the material I presently have?

MR. STEWART: Those revisions were sub-

Q. The copy I had did not contain that amendment. Thank you.

In order that we do not get lost in all these pieces of paper, I think I should mark the report from DeGolyer and MacNaughton dated January 1, 1957, attached to the front of which there is a letter dated February 3, 1958, a copy of which was addressed to me and was received by Dr. Sproule and Associates as Exhibit C-21-3, and then perhaps we can summarize it for the record.

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--- EXHIBIT NO. C-21-3: DeGolyer and MacNaughton report, dated January 1, 1957, Reserves Under Contract, Summary of estimated Saleable Natural Gas Reserves under contract to Trans-Canada, Alberta and Saskatchewan, together with letter dated February 3, 1958.

THE CHAIRMAN: Mr. Patterson, is this the same report as this one of January 1, 1957, only brought up-to-date with a letter?

MR. PATTERSON: Brought up-to-date with a letter, sir. By reason of the fact that the letter does not appear in all copies, I thought I would endeavour just to get that change straightened on the record.

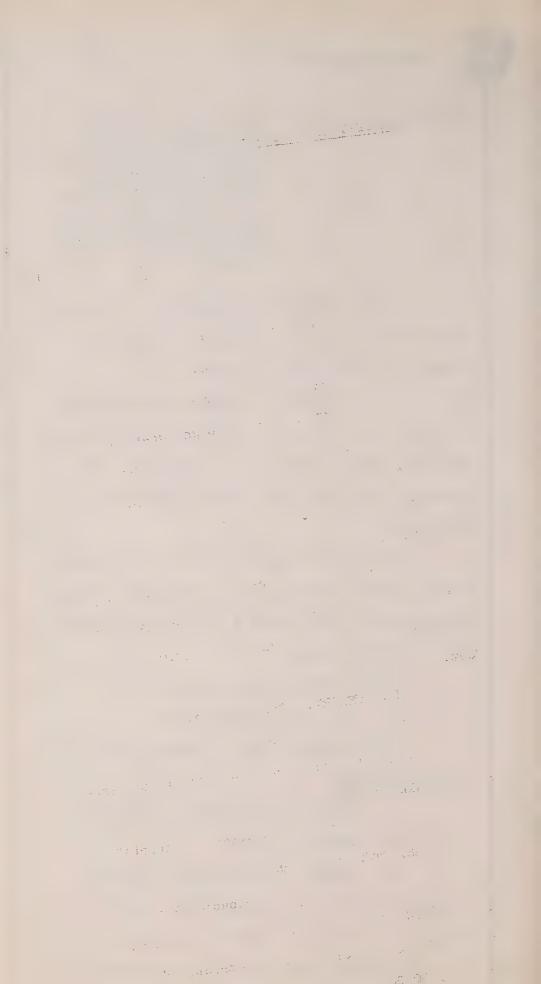
Table 2 of Exhibit C-21-3 states that the total estimated saleable gas reserves under contract as to proved reserves total 4,707,102,000,000 cubic feet. Is that correct?

MR. STEWART: That is correct, sir.

Q. And as to probable ---

MR. STEWART: May I -- that is the Province of Alberta.

- That is the Province of Alberta? MR. STEWART: Right.
- Q. Right. As to probable, Table 2 states 616,744,000,000, making a total reserves, according to that table, under contract, of 5,323,846,000,000 under contract in the Province of





Alberta?

MR. STEWART: Yes, sir.

Q. As of January 1, 1957?

MR. STEWART: Yes, sir, that is correct.

Q. And in the letter dated February 3, 1958, which is a part of Exhibit C-21-3, the following comments as to reserves under contract in the Province of Alberta are made, firstly:

"Trans-Canada as yet does not have a permit

"for the export of gas from the Hussar

"area."

That is correct?

MR. STEWART: That is correct.

Q. And in Table 2 of Exhibit C-21-3 the reserves covered by contracts in the Hussar area are 127,111,000,000 as to proved reserves and 653,000,000 as to probable reserves, making a total of 127,764,000,000, which, while under contract, is not under permit for export?

MR. STEWART: That is correct.

Q. And also a further note on Table 2 is that Trans-Canada has a permit to remove only a total of 900 billion cubic feet from the Nevis and Homeglen-Rimbey field. That, also, is correct?

MR. STEWART: That is correct.

(dec. 1931) in • 70° Q. And the Nevis and Homeglen-Rimbey field set out under contract in Table 2 total something in excess of 1 trillion cubic feet, in very quick addition?

MR. STEWART: The proved plus probable.

Q. The proved plus probable?

MR. STEWART: That is right.

Q. The next comment in regard to Table 2 is that the reserves shown under contracts to Trans-Canada in the Gilbey field were estimated to be 227,635,000,000 feet, and the letter goes on to say that certain of the contracts do not dedicate all of the gas underlying the lands comprised in the contract and, therefore, the proved reserves under contract to Trans-Canada, adjusted accordingly, is estimated to be 166,131,000,000 cubic feet.

Now, will I find, in a moment, or are you going to make for me the necessary adjustment to the total Alberta saleable gas reserves under contract by reason of the comments which I have just read so that we can correct that total Alberta figure?

Before you embark on that, I see that there are actually two letters here, a further letter dated January 29th which makes some other corrections, so I think we had better deal with the whole thing at once to get our new proper figure.

In the letter dated January 29th, further amendments to Table 2 regarding the Pincher Creek

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and Gilbey fields are given. I take it the amendment in regard to the Gilbey field need not now be considered in the light of your later letter of February 3rd, because in the letter of January 29th you estimated at 375 billion and, in your letter of February 3rd, you say that under contract is only 166 billion.

MR. HORTE: That is correct. We just have, under contract, 166 billion.

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Q. Then, as to the Pincher Creek, there is a revision of the figures shown in Table 2 for Pincher Creek. Now, that revision should be taken into account in arriving at the new Alberta total under contract as of the date of February 3rd.

MR. HORTE: Yes, sir.

Q And that revision reduces the proved reserves for Pincher Creek by approximately 370 billion cubic feet?

MR. HORTE: That is correct.

Q. And increase the probably by, approximately, 475 billion cubic feet?

MR. HORTE: That is correct.

Q. Would you now, then, mind carrying out the calculation to give us the total Alberta estimated saleable gas reserves under contract?

MR. STEWART, JR.: It will take a few minutes to make this calculation. Perhaps we can give it to you after recess.

MR. PATTILLO: I think it is most important, from the standpoint of the people who are reading these records every day and trying to understand them, that we have this evidence put in as we ask for it. If we have to take a few minutes to make the calculations, then, I think we have to take them.

THE CHAIRMAN: It is a very important figure.

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MR. PATTILLO: Yes.

MR. STEWART, JR.: I have those figures now: total proved reserves currently, 4,059,966, Probable reserves, 1,726,821,000,000 cubic feet.

MR. PATTERSON: 6. And a further revision to be made to Table 2, is that, you mean there are Saskatchewan reserves under contract under the heading Steelman -- what is the position of those?

MR. HORTE: Those reserves are not under contract to us.

Q. So that the figure just given is the figure of total reserves under contract?

MR. HORTE: That is correct; total reserves. In answer to your question, Mr. Patterson, I should say this: it is the total reserves under contract and under permit; the difference being underlying lands in the Homeglen, Rimbey and Nevis fields there are more than 900 billion cubic feet of reserves; 900 billion cubic feet being that amount that we have under permit to take out from those fields from the Alberta area.

MR. STEWART, JR.: May I explain that just a little bit?

BY MR. PATTILLO:

Q. What I want to know and, it seems very simple to answer, is how much have you under

permit.



contract that you have a permit to export?

MR. STEWART, JR.: The figures have
just been read into the record; they can be exported
from the lands under contract over the period of the

Q. How much have you got under contract, in addition, for which you have no permit to export?

MR. STEWART, JR.: The reserves under contract, which would include the reserves which would be permitted to be removed under the permit plus other reserves under contract are 4,399,379,000,000 cubic feet proved; 769,411,000,000 cubic feet probable. That is, 5,168,790,000,000 cubic feet proved plus probable.

Q. Well, Mr. Stewart, I still do not understand that at all. I want an answer. How much gas have you got under contract that you have no permit to export at the present time?

MR. STEWART, JR.: I am having trouble with this arithmetic. We have had an error in the arithmetic and it will take some time to be sure of the figures.

Q. I want those figures right after the recess. Having regard to the exhibits that have been put in and which are headed "A Discussion of factors relating to transmission and marketing of natural gas" and headed "Present and Potential Canadian and Export natural gas markets of Trans-

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Canada Pipe Lines", both of which documents have been prepared in this current month of February.

I want to ask some questions as a background for the questions I want to ask and I want to be sure we are both talking about the same thing.

When the public financing was done in February, 1957, the company had under contract with producers a certain quantity of gas which they anticipated would be in a deliverable state.

Now, what was that figure?

MR. STEWART, JR.: 4.5 trillion cubic feet.

Q. And they had under contract with consumers all across the length of the line, excluding Midwest, for some period of time for which they had a permit to export gas; how many feet?

MR. TIPPY: Excuse me, sir, your question related to the date of financing, as I recall.

Q. As to the date of financing.

MR. TIPPY: "I was looking for a summary of that. I don't believe it is summarized in the way you put your question but I think it would be possible in a relatively short time to look through the record we have here. We have the February 7th, 1957 revenue and receipts of the project, which was the last report at the time of the financing and it would require some computation to put that together. The record is set forth here but there was a number of small contracts not yet executed.

MR. PATTILLO: Perhaps you can give me this information; with the producers, you had contracted for quantities per diem, for various years, building up to a maximum figure which was to be held -- and, I assume, with the consumers, you contracted out per diem amounts. I want to find out if the day was reached as of February last year balancing the two contracts; the set-up with the producers, the set-up with the consumers where your supply and demand would equal one another? That is the Canadian situation only.

MR. TIPPY: This is not as direct an answer as I would like, but in Volume 2 of the Economic Feasibility Report, February 7th, 1957, they review the state of the project.

MR. PATTILLO: Just wait a moment till I get that. What year is that?

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MR. TIPPY: Page 5 there is a paragraph numbered 2.

MR. PATTILLO: All right.

MR. TIPPY: The second sentence of that paragraph reads:

"There remains a small discrepancy on
"the order of two per cent in the amount
"of gas deliverable under contract and
"the annual requirements as set forth
"in transmittal letter of October 18th,
"1956, which accompanied the October
"supplement to our report.

The volumes under contract and under permit were in substantial balance with the requirements as estimated at that time including both requirements under the signed sales contract and those which we estimated would be under contract by the time the line was in operation.

MR. PATTILLO: Right. Now, we are talking solely about Canadians. We are not talking about Emerson at all?

MR. TIPPY: That is correct.

MR. PATTILLO: With the line as it is presently being built, with the compressor stations and everything, with its present facilities, how long would it be before the line would be operating at full capacity, based on the figures to which

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you are referring in the sentence that you just read?

MR. TIPPY: The requirements which we had for financing are set out; our entire report was based on operation during the fifth full year, which was the year 1962-1963, and in connection with financing it was not required to go beyond that year.

MR. PATTILLO: So that in the fifth full year, which would commence November 1st, 1962, you contemplated the line as designed and being built to be in full capacity?

MR. TIPPY: No, not in full capacity, but that is development as far as the program submitted to the financing people was related ---

MR. PATTILLO: So, what I want to get, the line being built, did you feel that you were going to get full capacity?

MR. TIPPY: No.

MR. PATTILLO: Haven't done so yet?

MR. TIPPY: Well, the problem is this, that a pipeline is a growing thing. We look at five-year development as we saw it at that time and as it was proposed by the company, and it was a study of those five years, and the financing that ran into those five years, and we speak of the capacity of the line when we are contracting -- once the main line ran from Alberta to Montreal



and becomes fully loaded and looping -- it would be a continuing growth; there is no static end to it.

MR. PATTILLO: Well, I understand that, but you agree with me that the line as originally designed has a capacity that could be determined.

MR. TIPPY: The capacity and facilities, they were to be developed as set forth each year; this was the initial program.

MR. PATTILLO: Now, what was the capacity and when was it going to be ready?

MR. TIPPY: It would have been ready at the end of 1962 construction season.

MR. PATTILLO: This is solely Canadian requirements?

 $$\operatorname{MR}.$$ TIPPY: This report dealt solely with Canadian requirements.

MR. PATTILLO: Yes?

MR. TIPPY: And would have resulted in an estimated sales capacity for the year 1962-1963 following the construction season of 186,656,000 MCF. That is for the year.

MR. PATTILLO: Mr. Orme has made a new market study, reviewed the situation in Canada, and he says that the thing has grown enormously.

MR. TIPPY: That is correct.

MR. PATTILLO: Can you give us some idea

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from comparing his study of February, 1957 with
the study on which you made the report to the
insurance company in February, 1957 and tell us -and I am not asking you to bring it out too exactly
because I appreciate you haven't worked it out,
but would you anticipate this line as built would
be filled to capacity if everything that he reported
in his market report of 1958 works out?

MR. TIPPY: I have a little problem with the capacity phrase you use, but I am just trying to understand what you want.

MR. PATTILLO: Well, I will tell you what I want to get at. You agree that to increase the capacity of the line beyond the original capacity of the line you either have to have new producers or you have to have a loop?

MR. TIPPY: That is correct.

MR. PATTILLO: Both of these things cost money?

MR. TIPPY: Yes.

MR. PATTILLO: I want to find out if the Canadian consumer should be stuck for the cost of gas to Emerson. I want to start from there. You understand what I am saying. Let's take first the situation of the line for Canadian use.

MR. TIPPY: Mr. Pattillo, may I ask Mr. Orme to come up here with me?

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MR. PATTILLO: Yes.

MR. TIPPY: His report on the particular phase was completed one day last week and since that time he has been grinding away diligently to get some figures which tend to approach it just on the construction — it would require a construction program to handle what we are talking about. Perhaps we could have the last question repeated by the Reporter.

MR. PATTILLO: All right. Then we will have a recess so you may discuss the matter. I want you to clearly understand what I am talking about. I want to know whether the Canadian requirements in the east and along this line are such that the line is going to operate at a far greater capacity and if the costs of building that up are going to be for the benefit of the Canadians, or whether you want the Americans to have the benefit and we pay for it. That is what I want to find out.

THE CHAIRMAN: We will have a ten-minute break.

--- A short recess.

THE CHAIRMAN: Are you in a position, gentlemen, to give the figures?

MR. STEWART: 4,059,047,000,000 cubic feet.

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THE CHAIRMAN: Would you mind repeating that?

BY MR. PATTILLO:

Q. Would you repeat that again.

MR. STEWART: 4,059,047,000,000; probable 643,068,000,000 cubic feet. Total 4,702,105,000,000 cubic feet.

Q. Well now, gentlemen, I am sorry I lost my temper a few minutes ago, but really it's much too much to ask us or expect us to do these calculations. I think you will agree that what we really are primarily interested in is the results of the calculations that you have made and then we want to test the accuracy of the results.

Mr. Stewart, when you gave that figure now, as I understand it, that was the situation so far as reserves as of February, 1957 -- that final figure?

MR. STEWART: That is correct, yes.

Q. Now, you were asked to give a certificate to the underwriters and the investors as to how long those reserves would last based upon the proposed development of the line and the contracts that were then available to the company for sale of gas. Is that correct?



MR. STEWART: Yes.

Q. And how long did you anticipate that these reserves, not how long they would last but what period you were certain they were good for?

MR. STEWART: As I recall, under the gas supply certificate, the gas reserves were not exhausted prior to October 1, 1976.

Q. That was based on the contract that was then available to the company in Canada, or did that have anything whatever to do with the Emerson -- proposed Emerson contract?

 $$\operatorname{MR}.$ STEWART: It had nothing to do with the Emerson ---

Q. Nothing to do with the Emerson contract.

Now, I assume that you had seen the company's figures as to new contracts since February 1957, and Mr. Orme's projection as to markets, potential markets during the lifetime of this permit.

MR. STEWART: I have; I have seen Mr. Orme's estimate.

Q. Assume that the company gets no additional permit to export and no additional contracts or gas within the area for which it has a permit to export: what, in your opinion, would be the lifetime of these reserves to supply the market as projected by Mr. Orme?

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MR. STEWART: You are restricting this to the terms of the present permit. Is that correct?

MR. STEWART: Well, you are putting the restriction of the permit volume on an annual basis as to the market requirement. Did you assume that to be the requirement, Mr. Pattillo?

Q. No, I must say I wasn't thinking of that annual requirement. Let's first -- well, give it to me both ways assuming the annual requirement permits and the restricted permits and then let us assume it is removed.

MR. STEWART: Well, under the condition where the annual restriction will remain the present reserves on the contract would not meet the '59-60 requirement because of the permit limitation.

Q. And when you say the '59-60 you are talking about from November 1st, 1959 through to October 31st, 1960?

MR. STEWART: That is correct, yes.

Q. Now, lifting the permit restrictions and assuming no contract restrictions would be on ---

MR. STEWART: Yes.

Q. Yes.

MR. STEWART: Mr. Pattillo, there is quite a complex calculation but I would judge it was in the fifth year.

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Q. The fifth year?

MR. STEWART: In 1961-62 would be my --

Q. You would say they would be in trouble then on their maximum quantities?

MR. STEWART: Yes.

Q. Now, do you know anything, Mr. Stewart ---

 $$\operatorname{MR.\ STEWART:}$$ Mr. Pattillo, that would be only my ---

Q. Yes, I understand that.

Do you know anything about the aggregate reserves of gas that have been estimated here and presently available in the Province of Alberta?

MR. STEWART: Yes.

Q. Do you agree that on the basis of Mr. Orme's report that he anticipates that Trans-Canada requires all of the present reserves that the Province of Alberta has, proved and probable?

MR. STEWART: Well, Mr. Orme's report shows that the Trans-Canada requirement for a 30-year term would be approximately equal to the present ---



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Q. Now, Mr. Tippy, I think that you were the gentleman that was responsible for this section of the report called "Discussion of Factors Relating to Transmission and Marketing of Natural Gas".

MR. TIPPY: Yes, sir.

Q. And I would like to ask you, if you would please look at the tabulations that are attached to this report and, particularly, tabulation No. 3, which is headed "Equivalent Cost of Alternative Fuels for Domestic and Commercial Space Heating". Was such a tabulation as this prepared a year ago prior to the first financing?

MR. TIPPY: Yes, sir, there was such a tabulation in the so-called feasibility study.

Q. Was there any substantial difference between the results obtained in 1957 and the results set out in this tabulation?

MR. TIPPY: I would say not substantially; let me just take a look. There are minor variations in the price of oil.

Q. Up or down?

MR. TIPPY: It seems to be very little. Winnipeg, the current, December, 1957 price, 18.4¢ per Imperial gallon, and December, 1956, a year prior when the market portion of the feasibility study was originally made, it was 17.7¢. The Lakehead, Fort William and Port Arthur, now 19.4 and

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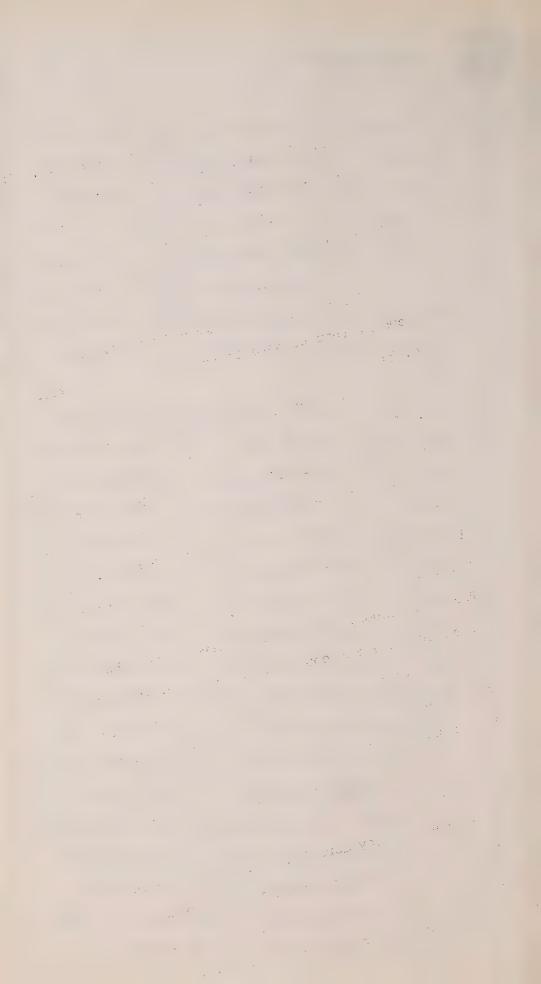
previously 18.9. Kapuskasing, 25.8, 25.7, virtually the same. Toronto, 18.3 against 18.1 a year ago.

London, 18.3 against 18.4 a year ago. Windsor,

18.3 against 18.4 a year ago. Ottawa, 19.4 in both periods, both times. Montreal was 18.3 both times.

Q. Now, would you explain to the Commission, Mr. Tippy, how a layman should translate this document that we have in front of us, tabulation No. 3?

MR. TIPPY: This particular tabulation, Mr. Pattillo, was to show the fact that there was a limit to the upper price which would be paid by a consumer in the towns mentioned, for gas for domestic heating, and also for commercial heating. The principal competition, as we outlined in our report, in our opinion was No. 2 fuel oil, in Toronto, London, Windsor and Montreal, and the price of \$1.27 was equivalent. However, there is a recognized difference in the United States for the present cost of oil. It would mean you take a look around into situations if your price of gas to the consumer should rise above that figure. In other words, if I am a gas consumer in Toronto and I am required to pay more than \$1.37 per thousand cubic feet, then I should start looking around with these other prices in there because it would be cheaper for me to be using oil at 18.3.





Q. Or it would be cheaper for me to be using coal at the prices given here.

MR. TIPPY: There are some other elements that enter into it; that is one of the factors we have shown in our tabulations, or chart, that there is a relationship between the price at which oil is sold and a relationship between the price for which gas is selling, and the result you can expect to have -- you can sell gas to some degree even where the gas is more expensive on a fuel basis than oil; there are other elements that enter into this other than the element of expense. This chart shows there is a broad pattern and general tendency for the use of gas at cheaper prices than oil in terms of B.T.U. you cannot hope to obtain high saturation with sales over a year. We have found, if gas is sold at higher prices, the number of installations sold are reduced materially.

Q. Mr. Tippy, are you in a position to tell us, looking at tabulation No. 3, again, how these prices you have here of gas, \$1.38 for instance, in Winnipeg, how does that compare with the fact, with the actual price charged in Winnipeg to the consumer?

MR. TIPPY: We are in a slightly difficult situation in some of these rates and in the process of reaching a static study, but I think I have some computations and I will see if I have

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the one for Winnipeg. The Winnipeg rates as now proposed to Winnipeg and Central, as my people interpret them in terms of this computation, it is indicated as averaging \$1.13 for the space heating customer who does not use gas for general service purposes as well and \$1.05 for the space heating customer who does use gas for general service purposes also.

- Q. And at the Lakehead, what is the situation there as to the break-off point of \$1.46?
- MR. TIPPY: They have a new computation on the Lakehead; if I recall, there was no change from the earlier figure. Let me see what it was in the earlier figure. The figure in the December, 1956 report was \$1.40.
- Q. Was there an actual price charged to any of the consumer public in those deliveries shown here which is higher than the break-even point as the competitive price of other fuels, as shown in your tabulation?

MR. TIPPY: The computation I have on Toronto, and it is an altenative computation as well, there is provision in the rate that if the number of space heating customers served reaches a number specified, that there will be an effective rebate or reduction in the rate. That rebate rate is \$1.48 and when it does reach that figure the price becomes \$1.42 and, I understand from Mr. Orme,

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Toronto has already reached the figure so the \$1.42 will be the uniform basis of price for the space heating customer.

Q. Are there any other cities, besides Toronto, where the price charged is actually above the equivalent price of other fuels?

MR. TIPPY: I was examining this to see: Montreal, for the central space heating customer, the figures, with general service use, are \$1.41, and without general service use, \$1.47.

MR. FRAWLEY: Ottawa?

MR. PATTILLO: Mr. Frawley lives in Ottawa and he wants to find out.

MR. TIPPY: Mr. Frawley, I do not have a computation for Ottawa. I do not know whether that means the rate has just been filed and we did not have the record, or that the rate has not changed.

MR. FRAWLEY: There have been lots of pictures in the papers to indicate that the gas has arrived.

MR. TIPPY: I understand that is true.

The Consumers' Gas Company in Toronto now owns the

Ottawa system. I do not know what the import of

that has been on the rate.

MR. FRAWLEY: Do not bother to find out.

THE CHAIRMAN: Surely it would go down?

MR. TIPPY: The figure was \$1.47 in the proposed rates of 1956.

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Q. Now, just looking at tabulation

No. 4 where you deal with interruptible industrial services. This table is supposed to read in exactly the same way as you read table No. 3, is that correct?

MR. TIPPY: Yes.

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Q. Then, are any break-even points shown on the second line for gas exceeded by the prices charged for interruptible industrial service?

MR. TIPPY: I would say not, Mr. Pattillo, for this reason: we cannot mix our sales unless you make them in line with the competitive condition.

Actually I would say there were none of these sales being made in the territories that are newly receiving gas because there is a restriction at the present time to get this gas out of storage for production purposes. That would not be true in Winnipeg, of course.

Q. Let me put it this way: I appreciate what you say about gas being used in Ontario at the present time but there are projected 'prices for industrial interruptible gas.

MR. TIPPY: Sir, there are generally ranges projected and in almost all instances the sale of interruptible industrial gas is the result of individual contract.

. Negotiation?

MR. TIPPY: Yes, sir. There are a lot of factors enter into it. For instance, the cost of the company to get through and the cost to the company and conversion to gas and all these factors come in.

Q. Now, would you please explain in a few words your tabulation No. 2 and the significance

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of these figures and how you say they should be interpreted?

MR. TIPPY: In the text, Mr. Pattillo, we made the point that there was a trend in Canada toward automatic heat, whether it be gas or oil. These figures taken from the Dominion statistics have the number of homes using gas for heat and the number using oil for heat over a period from 1951 in September, 1954, 1955, 1956 and the latest figure May, 1957. These indicate, for instance, that in Ontario where 28.7 per cent of the homes in 1951 were using gas or oil for heat, that rose to 48.2 per cent in September 1954, and in May 1957 stood at 57.8 per cent, which is really a support for the submission that the trend is to automatic heat and the question of who gets it, gas or oil, and a number of things, make for price competition.

Q. I agree, but have you taken, for instance, of the 28.7 per cent that were using either gas or oil in Ontario in 1951, the greater percentage by far were using oil?

MR. TIPPY: That is correct.

Q. Now, that has altered quite a bit because in 1957 the percentage using gas as compared to oil is much higher?

MR. TIPPY: That is correct.

Q. Have you got that trend projection

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MR. TIPPY: I would like Mr. Orme to answer what he has made of the same figures, and I think that will get at what you are after.

MR. ORME: Mr. Pattillo, I think my answer to your question would first have to be that these are Toronto figures and our estimates and projections of Trans-Canada sales requirements are for specific market areas. Of course, we did take into consideration the trend in these particular areas. For instance, in Toronto, for Consumers Gas Company we very definitely took into consideration the fact that they are just now really getting under way in the attachment of residential space heating customers. For instance, the first year after the introduction of natural gas, which was in the fall of 1954, they attached something in the order of 2,000 space heating customers. In the second year they attached an additional 4,000 and the third year they attached an additional 8,000. Last year they attached 21,000 or 22,000 and this year its budget was forecast that they will attach somewhere in the order of 30,000 space heaters. The fact that they attached so few to start with immediately after the introduction of natural gas reflects two factors: one is the physical ability of a company during a conversion year to attach much new work and,

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two, is the fact that during the early years Consumers
Gas made only what I would call nominal reductions
in their rates. Subsequent to that time they
had made a series of some fairly substantial reductions in the rates, particularly as they affect
residential space heating. As a matter of fact,
the reductions have been put into effect practically
every October 1st.

Q. Now, have you ascertained of these 30,000 space heating contracts how many of them are new residences that have not had heat of any sort before and how many of them are changeovers and if you ascertained what percentage is new, then what percentage of the new houses in the Toronto area being built are being equipped with gas rather than other forms of space heating? Have you got those figures?

MR. ORME: No, I do not have any precise figures on those.

what percentage of the people are changing over, what percentage of the new houses are being equipped with gas in order to make any realistic projection as to how much gas is likely to be sold if the trend continues?

MR. ORME: That is correct, and they usually take that into consideration when they make their forecasts.

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Am I to understand that the forecasts in here, so far as Toronto is concerned, are really not your forecasts, they are the Consumers' forecasts?

MR. ORME: As far as the first four or five years are concerned, which are shown in detail on Exhibit 5, the only requirements that the Consumers Gas Company shows on that exhibit were furnished us by the Consumers Gas Company and the various bases on which such estimates were made, and after reviewing them we did accept them for the purpose of this study.

Q. Well, now, I am looking at Exhibit 5 as an appendix of C-19-4, page 1. Is that what you are talking about?

MR. ORME: That is correct, sir.

a. And you show the Consumers Gas central zone F, that is firm, is it?

MR. ORME: That is correct. These were first contracted for on a firm basis for maximum demand.

Q. They show the quantities at 82,500 Mcf per day during the year commencing November, 1958?

MR. ORME: That is correct, sir.

Q. And for the eastern zone, that would be the Ottawa district?

MR. ORME: At the present time the eastern

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zone contract of Consumers Gas Company with Trans-Canada covers the principal towns of Ottawa and Brockville.

Q. That is 5500?

MR. ORME: That is correct. That is a contract taken for the first year of service.

Q. Then, you show down at the bottom of the page additional firm 10,000 Mcf per day; is that contract firm?

MR. ORME: No, sir, it appears on the headnote on the exhibit.

now to you that they are going to require in addition to the 82,500?

MR. ORME: No, sir, those are my own estimates as to what I think they will probably need in the next five years. We have not heard yet definitely from Consumers Gas as to what specific amounts of additional gas they will want in the years covered by this.

Q. Well, now, will you tell us how you came up with this figure?

MR. ORME: Well, there were a number of factors taken into consideration.

Q. Please explain them.

MR. ORME: In the original contract originally covered by the Consumers' contract there were certain definite marketing areas and delivery

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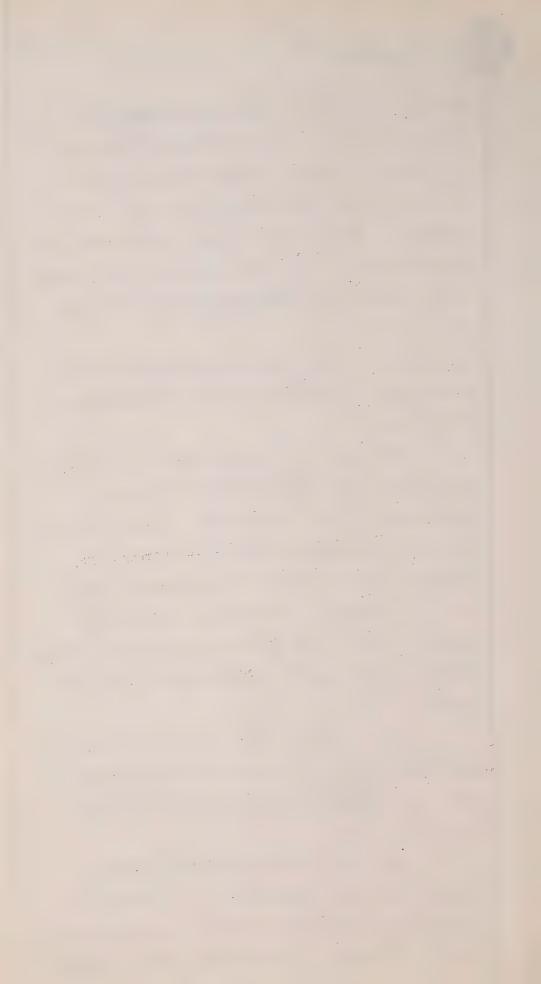
points. Subsequently Consumers Gas Company has received certificates from the Ontario Fuel Board for service in a number of communities which were not included and covered as delivery points in the contract. It is for these that they will need some additional gas for those towns which were not covered by the contract and presumably not in the contract areas.

Q. Are you talking about this recent proposed sale by Dominion Natural Gas to Consumers, in that area?

MR. ORME: My understanding is that that deal has been consummated pursuant to which my understanding is that Consumers Gas Company acquired distribution systems of Dominion Gas Company, St. Catharines, and deliveries that were in the general area of the Consumers' subsidiary, Provincial Gas Company, around Welland and the balance of the Dominion distribution systems were acquired by the Union Gas Company.

That is right. I happen to know something about that. Is that where you are getting that figure of 10,000 Mcf, is that to take care of that area?

MR. ORME: That is one of the factors that was taken into consideration. I should also point out now, Consumers Gas contract for central zone, there is a provision in the contract that the Consumers





may, if it elects, nominate or designate to Provincial Gas Company as subsidiary under that contract and therefore its requirements calculated under the contract.

Q. It has been doing that for some time, has it not?

MR. ORME: I beg your pardon?

It has been doing that for some time, has it not? I mean, this figure up here we were looking at a few minutes ago, 82,500, that would cover the requirements of Provincial Gas, the subsidiary that supplies Niagara and Welland?

MR. ORME: I would say it would but not on the basis of an additional new 32 markets that Consumers Gas Company have received from the Fuel Board to serve in the central zone.

Q. Well, go on and explain the rest of it, how you made these calculations?

MR. ORME: Well, one of the factors
taken into consideration was the additional mortgage which consumers had received certificates
from the Ontario Fuel Board subsequent to signing
this contract. Two was their acquisition of the
Dominion markets. Three, there are some additional
markets not now certificated which it is our
understanding that they are considering serving.
My own feeling is that when Mr. Jones gets ready
to contract that he is going to contract for



additional volumes which will be in excess of these I have shown for you.



Q. Now, as I interpret this exhibit for the year starting November 1st, 1958, you say the maximum daily will be 267,631,000 cubic feet a day, is that correct; 267,631 Mcf?

MR. ORME: You are referring to the total maximum day demand of the Canadian markets in the contract year 1958-59?

Q. Yes.

MR. ORME: Yes, sir.

- Q. Did you do the forecast a year ago?

 MR. ORME: Yes, sir.
- Q. What corresponding figure did you come up with then?

MR. ORME: I don't have that totalled, Mr. Pattillo. It is shown for each of the separate markets in the financing report.

I believe it is shown in the December, 1956, market report under Volume 2 of Trans-Canada Pipe

Lines Limited Economic Feasibility report and, specifically, in Section 1, page A-3 of the December, 1956 market study, and it shows there a total amount of 210,979 Mcf.

Q. Now, that means that on your present projection it is an increase of 26,000 Mcf over and above your final figure at that time, in demand contract alone, is that right?

MR. ORME: Yes, sir, and I would like to point out in that connection, as shown on Exhibit 5 --

well, of the February, 1958, study, that there is already contracted, for that maximum day that you are referring to, 236,000 Mcf.

Q. That is right, according to this Exhibit 5, page 1?

MR. ORME: That is correct.

Q. And a year ago you forecast that the total requirements would be 210,000?

MR. ORME: That is correct.

Q. And of that 210,000 that you fore-cast, how much was included for supplies not contracted for?

MR. ORME: Those were our then estimates of the total sales which either were contracted for or would be contracted for, for delivery on that maximum day.

Q. I appreciate that, but I want to know how much of the 210,000 corresponds to the 31,374 in Exhibit 5.

MR. ORME: Well, sir, I think I can partially answer that. I will do the best I can.

The Saskatchewan Power Company was then in the original 1956 report -- I believe it is substantially in the same amount that is in Exhibit C-19-4; the Plains Western Gas and Electric Corporation is slightly increased; the Inter-State Gas Limited is increased above what the figure was originally estimated for, primarily for the reason



that there was an additional demand. The Winnipeg and Central: there was a change made in that and I am not sure whether it was made subsequent to the preparation of our December, 1956, report or not, whereby the contract demands were increased to provide for the delivery of some additional demand gas.

I am informed by Mr. Coates that that contract change to provide for delivery of additional volumes was after the December, 1956 report.

In the Northern Ontario Natural Gas

Company markets, shown on Exhibit 5 of Exhibit

C-19-4, at the time of the preparation of the

December, 1956 report I don't believe this -- I am

sure those contracts had not been signed in contract

form but there were some preceding agreements

leading to the signing of a contract in which there

were certain volumes. My recollection is that

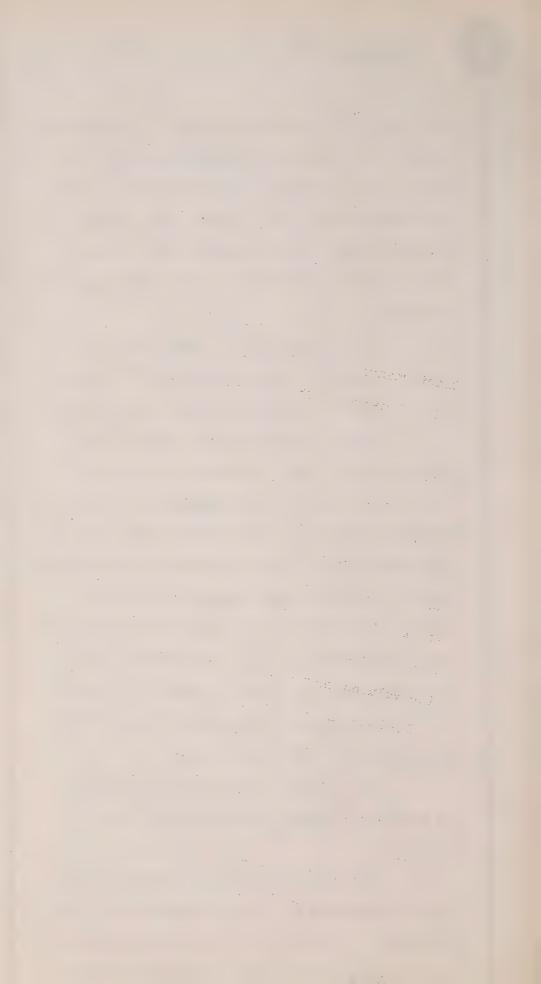
the volumes that are shown in E hibit 5 of Exhibit

C-19-4 are in excess of those which were reflected

in our December, 1956 report.

Q. Well, Mr. Orme, we will be here for months if I cannot get this thing in another way.

You have a figure in your Exhibit 5 of 236,000 contracted for as the maximum day's demand in 1958-59. Now, can't you give me the equivalent figure showing in your earlier report before the





public financing?

MR. ORME: Well, I gave you the total figure of 210,000 Mcf.

Q. Yes, but 236,000 is not the total figure in your Exhibit 5.

MR. ORME: The difficulty is that included are the same markets which were not contracted for at the time and, included in some of the markets not included for in this exhibit are markets which are presumably contracted for, and I would have to check them in order to give you the total.

Q. Now, Mr. Orme, let us see if we cannot get it this way:

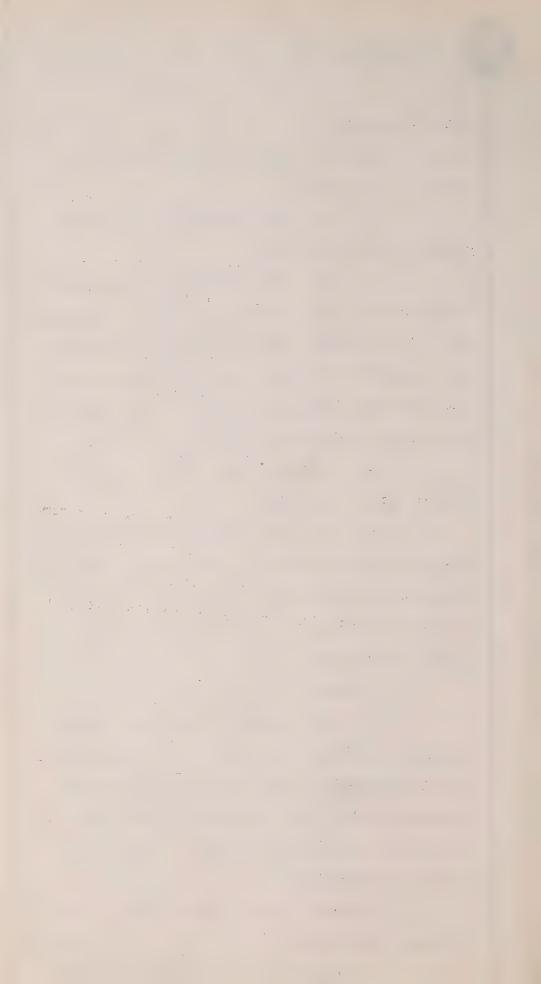
You have a total figure here of the maximum day, based on what has been contracted for and some addition amounting to 31,000 that has not been contracted for but which you are reasonably certain is going to be required.

MR. ORME: Yes, sir.

Q. Now, surely you must have done the thing the same way a year ago. You must have had, in December of 1956, a total of what was contracted for and a total of what you thought was going to be additionally required. Now, it is those figures I want.

MR. ORME: We don't have a total. We could get them for you.

Q. And you haven't got that totalled





for any of the years?

MR. ORME: No, sir.

Q. What I want to get at, Mr. Orme, you see, is why did the picture change so suddenly within a year, and I want to see whether this change in the aggregate from 4½ trillion up to 18 trillion occurs in later years where you are projecting or whether a very substantial amount of it occurs in the five years where you say you have actual contract figures?

MR. ORME: Part of that occurs in the 5-year period.

at, how much of it occurs in the 5-year period, and perhaps you can tell us this, then, and let us go over to the year 1962-63, which would be the fifth year:

Now, according to this exhibit, on page 2, in the right hand column, you say the maximum day's delivery in that year, contracted for, will be, in Canada, 569,715 Mcf. Is that right?

MR. ORME: That is right, and those are the volumes that are presently contracted for.

Q. And that, in addition, you anticipate that there will be sold 189,177, making a grand total of 758,892?

MR. ORME: That is right.

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Now, let us get at the figure you had a year ago. What was the corresponding figure you had for the 758,892, a year ago?

MR. ORME: I believe the figure was 524,214.

Q. 524 ---

MR. ORME: --- 214 Mcf.

Q. And it was approximately 45,000 Mcf a day less than the amount that is now contracted for in that year?

MR. ORME: That is correct.

Now, Mr. Orme, in coming up with your aggregate figures, have you taken and drawn a graph showing this increase in the maximum daily demands within the last year over your forecast of a year ago and used that in any way to assist you in arriving at your projected total requirements?

MR. ORME: We have not drawn a graph, as such.

- Q. Would that be of any assistance?

 MR. ORME: I don't think so.
- Q. Have you paid any attention, in your projection for the subsequent years, to the trend figures that are indicated in this 5-year computation as opposed to the same five years the year before?

MR. ORME: No, sir, the trend which we relied on in our future projections were the five,





six-year period similar to Exhibit 5 of Exhibit C-19-4.

Q. Would you repeat that, Mr. Orme?
I didn't get that.

MR. ORME: I said our future projections for requirements reflect the trend in the 5-year periods presently shown on Exhibit 5 of Exhibit C-19-4 rather than the estimates as they were made a year ago.

I did say six years, and there are six years shown on Exhibit 5, one of which, of course, is a partial year, 1957-58.

what is the aggregate difference in the five years shown on Exhibit 5 in the requirements now projected according to this exhibit and for the same five years as determined by you a year ago? Have you worked out that aggregate differential?

MR. ORME: No, sir, I don't believe so, except by observing one with the other.

These are our best estimates at the present time on the basis of conditions as they exist today.

Q. And Exhibit 6 is your final projection based on these figures for the first five years, is that right?

MR. ORME: Substantially, sir, yes.

Q. Now, what leads you to believe that you are going to have such a substantial increase



in firm industrial sales in this area supplied by Trans-Canada?

MR. ORME: Well, I believe, as I said in the text of the exhibit that you are referring to, during the course of years we have had an opportunity to observe the growth in industrial fuel requirements in this particular market area. On the basis of those observations it has been very definitely indicated to us that the requirements for firm industrial customers that were existing at the time of the original market survey some years ago have increased at an annual rate of approximately 5 per cent a year.

as the markets of Trans-Canada are concerned that the greatest industrial development at the present time is in the Province of Ontario and the Province of Quebec?

MR. ORME: That is correct; yes, sir.

Q. And you will agree that coal can be used for industrial purposes in those provinces more cheaply than gas can?

MR. ORME: Yes, but not for the particular purpose that gas has for firm service. It would be competitive on an interruptible gas sale but there would not be the same result with respect to firm industrial gas. Most of that is oil or petroleum gas.



Q. So you are reasonably confident, from your experience in other areas, that those requirements will be needed in industrial sales, firm?

MR. ORME: That is my opinion, yes, sir.

Q. What about the interruptible industrial sales? On what do you base that forecast?

MR. ORME: Well, as stated in the text, we made the same assumptions with the interruptible gas as we made with the firm gas. It is, in effect, a projection of the potential industrial market which we assume would be attached during the 5-year forecast, and most of the interruptible gas, or a substantial part of it, is the interruptible portion of the total fuel requirements of industry, a part of which are considered as firm gas sales, so when I made the remark a while ago that the fuel requirements in existing industries had increased on an annual rate of approximately 5 per cent, that was the total fuel requirements estimated, including both the interruptible and the firm portions of it.

Q. Looking at your figures for industrial sales for the first five years, have the distributing companies of Trans-Canada got firm contracts for industrial sales as shown in this Exhibit 6, both firm and interruptible industrial gas?

MR. ORME: I am not informed with respect to all the contracts. A number of them I do have

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knowledge of. I would not suppose that at the present time, particularly some of the newer companies, are all under contract at this time; but I do know there are negotiations which are in progress for at least this amount of gas.

How did you come up with these figures, for example, in the 1961-62 year for firm industrial sales and interruptible industrial sales?

I really would prefer to refer you to Exhibit 5 for the 5-year forecast reflected in that projection. The estimates for firm sales reflected in the total sales as shown in Exhibit 5 were arrived at by reviewing the estimates of industrial sales made in our survey originally, taking into consideration any results of any further market surveys or any changed conditions reported to us by the various distributing companies and adjusting what we previously estimated to reflect these changed conditions.

Also, I would like to say at this time -- and this may be an answer, or a part of it -- that all of our estimates contained in the original December, 1956 report were admittedly conservative.

Q. They must have been.

MRL ORME: And they are done that way intentionally. We had a reputation of being very

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conservative in our forecasts of estimates of sales for financing purposes.

 $\ensuremath{\mathbb{Q}}_{\bullet}$ Are these equally conservative, Mr. Orme?

MR. ORME: I think you will find some of the distributing companies will not agree with the amounts I had in them as increased amounts for the five years. I think they will say that they would have higher volumes.

Q. Well, I never found a salesman yet who said he did not need more, in fact, than he was going to sell.

MR. ORME: I am not referring to the sales. I am referring to responsible operating officers ---

Q. So you considered these figures equally conservative with the ones of a year ago?

MR. ORME: I sure do.

MR. McNEILL: Mr. Chairman, I did not want to interrupt Mr. Pattillo and destroy the record. I did, however, want to draw your attention to the fact, before we adjourned today, that Mr. Nesbitt, who is anxious to get away, has one or two or three corrections to his testimony of yesterday, if that might be convenient.

THE CHAIRMAN: We will make sure we get them.

MR. PATTILLO: Q. Now, in these estimated

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sales to Union Gas Company shown on Exhibit 6, for how many years are the figures shown here the actual figures, based on contracts?

MR. ORME: If you will refer to Exhibit 10, as I have so stated previously in the text, the present contract volumes extend through the year 1968-69 in the amount of 64 million Mcf annually or 64,000 Mmcf annually.

The contract is, of course, for a longer term and escalates during the early years of the contract to the 64,000 Mmcf amount, which also says "and years thereafter".

Q. Mr. Orme, from your study, coming down to that -- let us take the first five years, having regard to the load factor and having regard to the storage facilities that are available: is it possible for Trans-Canada to meet these requirements that you project here with its present system?

MR. ORME: You mean with the existing pipe line fully powered?

Q. Yes, and having regard for the load factor and the various places which they will supply, having regard to storage facilities which are available, which are limited, am I not correct, to some storage facilities owned by Union Gas?

Mr. Coates is nodding his head and agreeing.

MR. ORME: Yell, I didn't understand the import of your question, Mr. Pattillo, because the

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amounts that are deliverable to Union by TransCanada have actually no relationship to your
maximum day requirements, because, in the contract
Trans-Canada is under no obligation to deliver gas
on a maximum day basis. The contract provides,
rather, for the delivery of specified volumes during
the winter period.

What I was talking about was the load factor in these various communities that Trans-Canada is going to supply at the present time, and that is not high, is it?

MR. ORME: Well, some of those are just now converted and are high, yes, sir, because they now have a price of gas which will permit sale on a low load factor in residential heating, because the over-all load factor is not very high ---

Q. Now, that is what I want to get at, and, as I say, you bring up your load factor and, if you have the storage facility you can do a great deal with that, can you not?

MR. ORME: That is correct.

Q. My understanding is that the only storage facilities in Eastern Canada belong to Union Gas.

MR. ORME: There are some smaller ones; but the only ones of any consequence are Union Gas, that is right.

Q. All right. Then I will again put my question: having regard to the fact that the only storage facilities are those of the Union Gas; having regard to the fact that you admit the load factor is not very high; having regard to the design of the present line as it is, when finished, is it going to be possible to deliver, in the next five years, the quantities that you project in your Exhibit 5?

MR. ORME: Yes, I think it will. In the fifth year some looping will be required.

A. But, apart from the looping required in the fifth year, you say there will be no difficulty?

MR. ORME: That is correct.

MR. PATTILLO: Well, I think I will stop right there and allow Mr. Nesbitt to make his corrections, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Orme.

MR. CHAIRMAN: Mr. Nesbitt?

MR. NESBITT: On page 1980, sir, towards the bottom, it says: "Northern National Gas Company".

That should be ""Northern Natural Gas".

On page 1991, the first full paragraph on the page, the second last line, the word "retirement" is there and it should be "requirements".

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On page 2027, the second full paragraph on the page, the last line reads, "they were not attached for a period of months." It should read, "they were attached for a period of months".

On page 2031, the last line on the page, the last word is "this" and it should be "these".

On page 2032, the second word on the page is "entity". It should be "entities".

On page 2051, the last paragraph of my own testimony says, "I am awfully close to that. . . ". It should have been, "I am not awfully close to that . . . ".

Now, sir, those are the corrections, but I have been led to understand that I left the impression with the Commissioners that if-as-andwhen sales were not common practices in industry. I did not intend to leave that impression and, if I may, would like to give a word of explanation of it.

THE CHAIRMAN: Yes, sir.

MR. NESBITT: When an underwriter makes a new commitment, it is qualified under the various provincial security acts and an offering date is set, but the securities are not delivered on that day; they are delivered at a later date some two to three weeks later. That date is called the closing date.

Between the offering date and the closing

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date, anyone buying those securities is buying them on an if-as-and-when issued basis. We also make commitments to institutional investors 'verbally even before the offering date.

That is the end of my remarks.

THE CHAIRMAN: Thank you very much, Mr.

Nesbitt.

MR. McNEILL: Now, in connection with Mr. Nesbitt's testimony, so far as we are aware, with the exception of the fact we have been requested to produce Mr. Atkinson on Monday, we presume that the financial portion of our submission has been dealt with. Mr. Nesbitt is anxious to get back to Montreal tonight, if he can. He is quite prepared to stay if it is necessary to stay. At the same time, he has spent a week with us already and I would like him to be released if that can be done without inconvenience.

THE CHAIRMAN: Well, Mr. McNeill, first of all, I would not care to give any kind of an even implied undertaking that the Commission is finished with the financial side. That was, as a matter of fact, one reason why we sent you word that we would like to have Mr. Atkinson here available at the beginning of the week. I would assume that Mr. Atkinson, as chairman of the finance committee, would be able to deal with any question of a financial nature which Mr. Nesbitt would otherwise

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 have dealt with in Mr. Atkinson's absence. Is that correct?

MR. McNEILL: That is correct, sir, in so far as current matters are concerned. As the Commission heard yesterday or the day before, Mr. Atkinson became associated with the company in July of 1956 and various matters of history that have been gone into and which Mr. Nesbitt has answered, of course, are matters that are not wih within the direct knowledge of Mr. Atkinson.

THE CHAIRMAN: Well, I would think counsel, Mr. Pattillo, would agree that we do not need to hold Mr. Nesbitt over at the moment and that, if it became necessary at a later time to have supplemental evidence from him on a point that cannot be dealt with by some other officer of Trans-Canada who would be here next week, that we could deal with it later, possibly in Toronto at some other sitting.

MR. PATTILLO: I agree.

THE CHAIRMAN: I do not want to keep

Mr. Nesbitt at all on speculation that counsel might
want to ask him any more questions.

MR. McNEILL: I am not suggesting this as a release of Mr. Nesbitt for all time, sir.

THE CHAIRMAN: I know. I understand that. Let us put it this way: Mr. Nesbitt, go home.

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MR. NESBITT: Thank you, sir.

THE CHAIRMAN: Thank you very much for the assistance that you have given the Commission during this sitting. On the other hand, please bear in mind that we may have to get you at another time.

MR. NESBITT: Very good, sir.

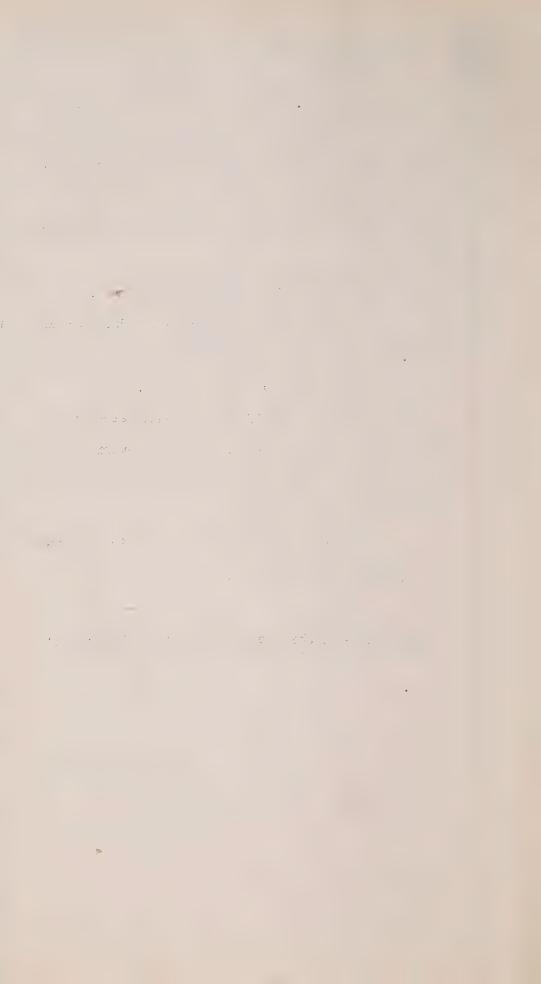
THE CHAIRMAN: I assume, Mr. McNeill, that Mr. Orme and Mr. Tippy and Mr. Stewart will be here?

MR. McNEILL: Yes, sir.

THE CHAIRMAN: The Commission does not propose to sit tomorrow. I think everyone is getting pretty ragged and we will, therefore, adjourn until Monday morning at 9.45.

The hearing of the Commission is adjourned until Monday, the 24th.

---Whereupon the hearing adjourned, at 4.35 p.m., until 9.45 a.m., Monday, February 24, 1958.











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